



UNIVERSITY OF KENTUCKY

2021 FINANCIAL STATEMENTS



University of Kentucky
A Component Unit of the Commonwealth of Kentucky
Financial Statements
Years Ended June 30, 2021 and 2020

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MESSAGE FROM THE PRESIDENT

We were created to serve Kentucky.

We were created to advance Kentucky — its economy, its quality of life, its education. That is our North Star.

And over the past 18 months, this institution has found new — and critically important ways — to honor that mission when our state needed us the most.

When COVID-19 vaccines became available, we united with partners from across campus to create a massive vaccination clinic, where, at its height, more than 4,000 people a day received a life-saving vaccine.

To date, we have distributed more than a quarter million doses of healing and hope — to teachers and school employees throughout Fayette County, frontline health care workers, first responders and those throughout our state with underlying health conditions.

Over the course of eight weeks, we worked in partnership with the state and local Lexington officials on a series of mobile vaccination clinics to reach medically underserved areas.

UK HealthCare constructed a 400-bed field hospital in less than two weeks in anticipation of a surge of COVID-19 cases, and our institution partnered with the state on community testing throughout the region.

In March 2020, when the pandemic's full force began to emerge in our country, our faculty worked to move every UK class online or to a remote learning context in less than two weeks. And we stood up a new initiative — the UK Health Corps — which used the latest technology to conduct screening and contact tracing, while providing support to students who needed assistance with quarantine and isolation protocols.

The challenge was unprecedented, but so was our community's resolve.

We met the moment.

And when we were challenged in new ways to craft a budget that underscored our commitment to our state and to our people, we positioned our university to thrive.



We invested in our students.

In the context of a \$5.1 billion spending plan, we held tuition and mandatory fee increases to one percent for the second consecutive year, dropping the four-year rate of increases below inflation. We increased financial aid and scholarships, which don't have to be repaid, to record levels and focused particularly on those students with the most financial need.

We invested in our people.

We outlined plans to increase starting wages for the fourth time in six years, created new paid family leave plans, restored the full employer retirement contribution rate of 10 percent and budgeted a two percent merit increase, including a one-time \$1,000 payment for all regular faculty and staff.

And those who have long been part of our community invested in us.

UK alum, Dr. Michael D. Rankin, left an indelible mark on the institution through a historic \$22.0 million gift commitment to the College of Medicine that will help build a new

health education building and provide millions of dollars in scholarships to ensure that more doctors will provide healing to communities in Kentucky.

All of these efforts remind me of our incredible capacity to serve our communities through our infrastructure, health and logistical expertise, people and talent.

To be sure, much has changed in the last 18 months.

What has not changed is our mission to serve Kentucky, which is how we serve the country and, increasingly, the world.

A few hallmarks of our trajectory of progress include:

- Continued growth in students to a record level of more than 30,000 — central to our goal of fueling Kentucky's future workforce needs.
- Record retention and graduation rates, boosted by increases in the last five years alone of more than five percent.
- Continued acceleration of our research efforts with growth in research and contracts to \$468.0 million annually — much of it focused on Kentucky's most intractable challenges, from opioid use disorders to cancer, heart disease and our country's energy future.
- A historic investment of \$10.0 million to conduct research into racial inequities and inequality in health, justice, education and society and an investment of seed money to launch the multi-disciplinary Commonwealth Institute for Black Studies.
- A commitment to our state's health needs, with UK HealthCare treating nearly 40,000 patients and being named the No. 1 hospital system in Kentucky for the sixth consecutive year.
- A continued transformation of our campus — now, more than \$2.80 billion in the last decade alone — that has positioned the university with outstanding living, learning and research spaces that rival any in American higher education.

In these ways, and so many more, we are demonstrating that our focus on who we are and why we were created is as relevant today as it was at our founding.

Now, we look toward — and plan for — a return to more normal operations for our community this fall and a new strategic planning effort that will include ambitious goals for our campus.

As always, whether in planning for the fall or casting our eye toward meeting challenges we can predict and those we can't yet imagine, we will be guided by our North Star and the mission that has called us for more than 156 years:

We will advance Kentucky.

Sincerely,

A handwritten signature in black ink, reading "Eli Capilouto". The signature is written in a cursive style with a large, stylized "E" and "C".

Eli Capilouto
President

Independent Auditor's Report

Board of Trustees
University of Kentucky
Lexington, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the fiduciary activities of the University of Kentucky (University), collectively a component unit of the Commonwealth of Kentucky, as of and for the years ended June 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of Kentucky Medical Services Foundation, Inc. (KMSF), a blended component unit of the University, which statements reflect assets constituting 3.3% and 3.3% as of June 30, 2021 and 2020, respectively, of the University's total assets, net position constituting 0.6% and 0.6%, as of June 30, 2021 and 2020, respectively, of the University's total net position and operating revenues constituting 10.2% and 10.7%, respectively, of the University's operating revenues for the years then ended. Those statements were audited by other auditors, whose reports thereon have been furnished to us, and our opinions insofar as it relates to the amounts included for KMSF, are based solely on the reports of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement. The 2020 financial statements of KMSF, which are included in the University's reporting entity as a blended component unit, were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audits and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the fiduciary activities of the University, as of June 30, 2021 and 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and postemployment and long-term disability benefit plan information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements. The governing board listing and the message from the president as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The governing board listing and the message from the president have not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we also have issued our report dated October 8, 2021, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

BKD, LLP

Louisville, Kentucky
October 8, 2021

**UNIVERSITY OF KENTUCKY
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2021 and 2020**

The following Management's Discussion and Analysis (MD&A) provides an overview of the financial position and activities of the University of Kentucky (the University or UK) and its affiliated corporations for the years ended June 30, 2021 and 2020. Management has prepared this discussion, and suggests that it be read in conjunction with the financial statements and the notes appearing in this report.

About the University of Kentucky

Mission. The University of Kentucky is a public, land-grant university dedicated to improving people's lives through excellence in education, research and creative work, service and health care. As Kentucky's flagship institution, the University plays a critical leadership role by promoting diversity, inclusion, economic development and human well-being.

The University of Kentucky:

- Facilitates learning, informed by scholarship and research;
- Expands knowledge through research, scholarship and creative activity; and
- Serves a global community by disseminating, sharing and applying knowledge.

The University plays a critical leadership role for the Commonwealth of Kentucky (the Commonwealth) by contributing to the economic development and quality of life within Kentucky's borders and beyond. The University nurtures a diverse community characterized by fairness and equal opportunity.

Vision. As Kentucky's indispensable institution, we transform the lives of our students and advance the Commonwealth we serve-and beyond-through our teaching and learning, diversity and inclusion, discovery, research and creativity, promotion of health, and deep community engagement.

Background. Under provisions of the federal Morrill Land-Grant Colleges Act (1862), Kentucky State Agricultural and Mechanical College was established in 1865 as part of Kentucky University (now Transylvania University). The College separated from Kentucky University in 1878 and was established on a 52-acre site (the University's current location) donated by the city of Lexington. In 1908, the College was renamed the State University, Lexington, Kentucky. In 1916 it became the University of Kentucky.

According to the Kentucky Revised Statutes (KRS) 164.125(2):

In carrying out its statewide mission, the University of Kentucky shall conduct statewide research and provide statewide services including, but not limited to, agricultural research and extension services, industrial and scientific research, industrial technology extension services to Kentucky employers, and research related to the doctoral, professional and postdoctoral programs offered within the University. The University may establish and operate centers and utilize state appropriations and other resources to carry out the necessary research and service activities throughout the state. The University may enter into joint research and service activities with other universities in order to accomplish its statewide mission.

In 1997, the Kentucky General Assembly reformed the state's public system of colleges and universities. According to the ***Kentucky Postsecondary Education Improvement Act of 1997***: The University of Kentucky was mandated to become a major comprehensive research institution ranked nationally in the top twenty public universities by the year 2020.

At its December 2005 meeting, the UK Board of Trustees approved the ***Top 20 Business Plan***.

The University's **Strategic Plan for 2009-2014** was adopted by the UK Board of Trustees at its June 2009 meeting. The **Strategic Plan** was designed to measure the University's progress by establishing specific goals for teaching, research and service at the department, college and university level.

Today, the University continues to focus on the core academic mission of the institution and the original tenets of the Morrill Land-Grant Colleges Act (1862). UK remains steadfast in its covenant with the Commonwealth - to produce graduates prepared for a 21st century economy; to conduct research that extends the boundaries of scientific discovery; to contribute to our economy and address relevant questions; and to render service and patient care that uplifts our community and region.

The UK Board of Trustees adopted the **Strategic Plan for 2015-2020** at its October 2015 retreat. The University is currently preparing a new Strategic Plan, building on the extraordinary progress from years prior. The plan considers the current operating context for higher education and focuses on five strategic principles that support our role as Kentucky's indispensable institution:

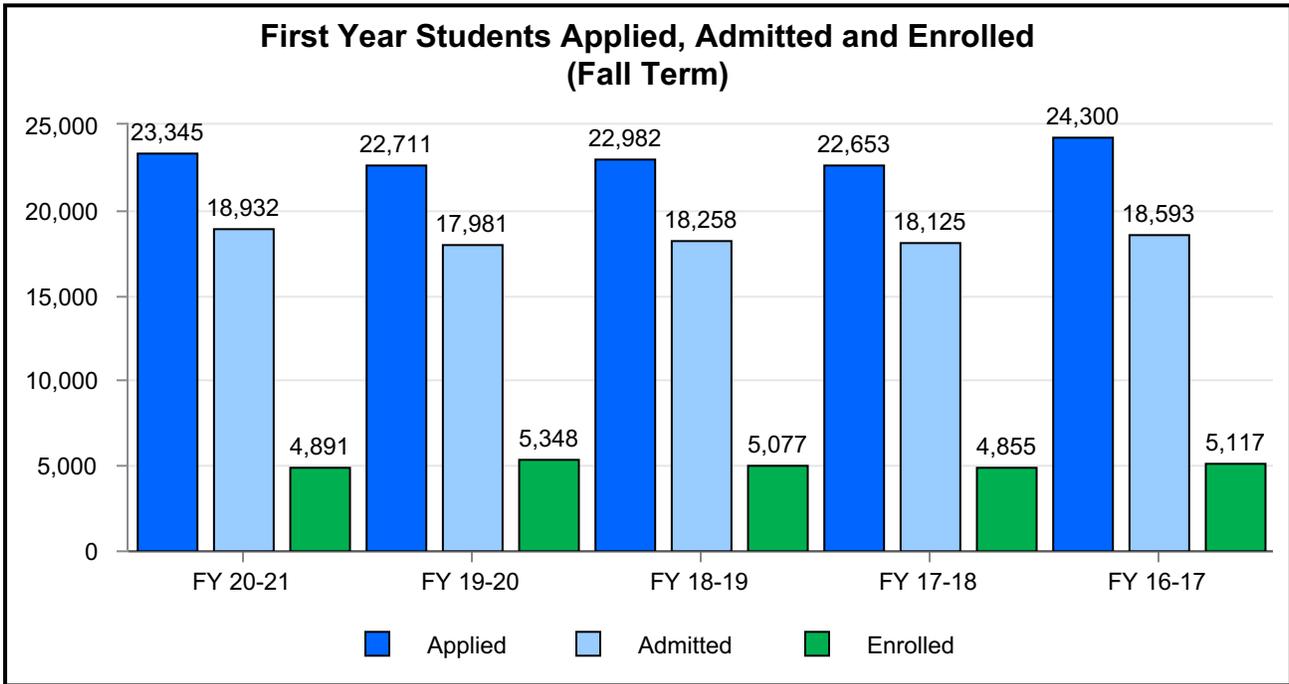
- **Putting Students First** - They are why we are here. Whether it is a maintaining a modern curriculum that prepares our students for success, providing appropriate support for graduate students or ensuring that doctoral students start and complete their programs successfully, we must put students first.
- **Supporting Our People** - We will only accomplish our mission of advancing Kentucky when our people are compensated - in terms of pay and benefits - and supported in ways that lead the state, too.
- **Inspiring Ingenuity** - How do we embed innovation and discovery into every aspect of our institution? The breadth and depth of programming and offerings on one campus makes us distinctive in higher education. How do we incentivize the spark of ingenuity throughout our campus?
- **Ensuring Greater Trust, Transparency and Accountability** - We are Kentucky's institution. And that mantle holds with it heightened responsibilities around accountability and transparency. But we need to do more to instill a sense of trust in each other on issues ranging from shared governance to open accountability for how we perform and what we measure.
- **Many People; One Community** - UK is among the most diverse communities in the Commonwealth. Our students will enter a world riven by divisions, but more interdependent than ever before. How do we model unity amidst diversity for our state?

Progress on these objectives is reported on an annual basis and presented to the UK Board of Trustees at the October Board retreat.

The University is identified as a "Research University (very high research activity)" by the Carnegie Commission on Higher Education. There are 131 such institutions in the United States (out of approximately 4,300 colleges and universities).

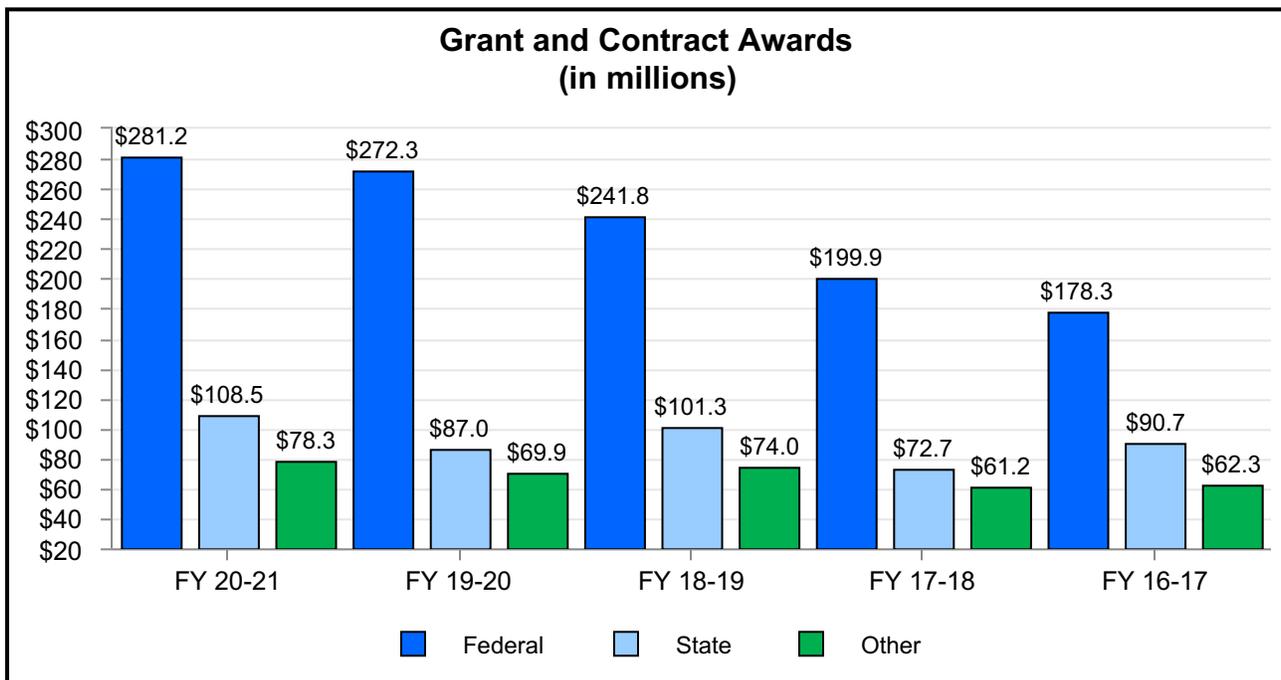
The University is accredited by the Commission on Colleges of the Southern Association of Colleges and Schools. This has been reaffirmed at approximately 10-year intervals since 1915, with the next accreditation review scheduled for 2022. In addition, several degree programs and individual units are accredited by agencies appropriate to specific professions or fields.

Students. In Fall 2020, the University had 31,110 undergraduate, graduate and professional students. They represent all 120 Kentucky counties, every state in the U.S. and more than 100 countries. Enrollment has increased by more than 3,000 students (10.7%) since Fall 2011.



Programs. The University offers more than 200 majors and degree programs in 16 academic and professional degree-granting colleges that are supported by a comprehensive research library system, the Graduate School and the Lewis Honors College. UK is one of only eight public universities nationally with Colleges of Agriculture, Engineering, Medicine and Pharmacy on a single contiguous campus.

Research. The total University research expenses, as reported to the National Science Foundation, totaled \$417.7 million for fiscal year 2019-20, compared to \$410.6 million in fiscal year 2018-19. The research expenses include both funded and unfunded recoveries of facilities and administrative costs and purchases of capital assets, thus are not correlating to the amounts shown in the Statements of Revenues, Expenses and Changes in Net Position. The total University research expenses for fiscal year 2020-21 have not been reported as of yet to the National Science Foundation and are not available. University of Kentucky Research Foundation (UKRF) research awards received during fiscal year 2020-21 total \$468.0 million, a nine percent increase from the prior year amount of \$429.2 million.



Outreach. As Kentucky's flagship, land-grant university, UK engages citizens and communities across the state in a myriad of ways, including extension offices in all 120 Kentucky counties; continuing education opportunities for teachers, lawyers and health care providers; clinics providing legal, pharmaceutical and health care assistance; statewide arts and cultural contributions; and a multitude of research efforts aimed at Kentucky's most difficult problems in economic development, health care, infrastructure and education.

Medical Centers. UK HealthCare Hospital System (UK HealthCare or the System), the University's advanced academic medical center and clinical care network, is uniquely equipped to provide advanced subspecialty care to the people of Kentucky. The academic medical center and health system provide patient care on par - in terms of both volume and complexity - with the nation's top 25 percent of academic medical centers. For the past six years in a row, UK HealthCare has been named the number one hospital in Kentucky by U.S. News and World Report's Best Hospitals rankings. To be recognized as a Best Hospital, UK HealthCare had to rank high nationally on a stringent data-driven ratings system that gauges performance. The analysis includes multiple clinical specialties, procedures and conditions. Scores are based on a variety of patient outcome and care-related factors such as mortality and patient safety, as well as reputation.

UK HealthCare operates two hospital units under one Joint Commission Accreditation and two licenses in addition to ambulatory services. The major service units include Albert B. Chandler Hospital, Good Samaritan Hospital and the Kentucky Clinic. The health system has a combined total of 965 licensed beds. On a monthly basis, UK HealthCare provides more than 1,419 inpatient surgeries, 1,430 outpatient surgeries, 37,909 radiology procedures, 7,872 emergency department visits and 210,613 hospital-based outpatient clinic visits.

Under a management contract with the Kentucky Cabinet for Health and Family Services, the System also operates and manages Eastern State Hospital, a 300,000 square-foot facility located on the University's Coldstream Research Campus. The psychiatric facility provides a modern setting for both acute and long-term inpatient psychiatric treatment for adults living within Fayette County and the 50 surrounding counties.

UK HealthCare's Markey Cancer Center remains the state's only cancer center designated by the National Cancer Institute (NCI), which reflects UK's position as a front runner in cancer treatment and research. UK HealthCare is one of an elite group of medical centers in the United States that have NCI designation, a federally funded Center on Aging and a highly prized Clinical and Translational Science Award grant.

In 2021, UK HealthCare entered into a significant hospital joint venture with Kings Daughters Health System (KDHS) in Ashland, Kentucky, through Beyond Blue Corporation, a wholly owned non-profit subsidiary of the University. This is the System's most significant hospital partnership since the acquisition of Good Samaritan Hospital in 2007. The partnership with KDHS will create new opportunities to serve patients from the greater Ashland/tri-state community that reaches across northern Kentucky, southern Ohio and West Virginia. Working more closely together, we can expand access to specialty and subspecialty care within that very large service area, enabling the region's people to stay closer to home for treatments.

UK HealthCare's dramatic growth within the last decade is in large part the result of a commitment to support the state's overall system of care by working together with local community providers to bring specialty care closer to the patient. These relationships take on different dimensions in each locality (management agreements, affiliate networks, outreach, etc.) and support keeping less acute care in the local community and smoothing the process for more complex, serious cases to be treated in the System's Lexington facilities. The goal is better care at all points of the continuum.

Libraries. As the premier research library in the Commonwealth, UK Libraries empowers lifelong learners to discover, create and connect by providing ever-expanding access to quality information and collaborating with academic and creative communities worldwide to advance knowledge, enhance scholarship, and preserve the history and culture of the Commonwealth.

Financial Highlights

The University's overall financial position remains fiscally sound with assets of \$8.28 billion, deferred outflows of resources of \$41.6 million, liabilities of \$2.27 billion and deferred inflows of resources of \$554.0 million as of June 30, 2021. Net position, which represents the University's residual interest in assets and deferred outflows of resources after liabilities and deferred inflows of resources are deducted, was \$5.49 billion (66% of total assets).

- Total assets increased \$960.4 million (13%), primarily due to increases in endowment investments, other long-term investments, notes loans and accounts receivable, cash and cash equivalents and capital assets, net.
- Deferred outflows of resources increased \$8.0 million (24%) that is a result of an increase in the net difference between projected and actual earnings in the other post-employment benefit (OPEB) plan investments offset by a decrease in contributions subsequent to the measurement date. It also represents the amortization of the acquisition price and the net carrying amount of refunded debt.
- Total liabilities increased \$37.7 million (two percent) primarily due to increases in accounts payable and the net OPEB retiree health liabilities offset by decreases in unearned revenue and long-term liabilities.
- Deferred inflows of resources decreased \$28.9 million (five percent) primarily due to decreases in OPEB Plan, assumption changes for the retiree health plan as well as decreases in service concessions arrangements with Aramark, Barnes and Noble and Greystar.
- Total net position increased \$959.6 million (21%). Restricted net position increased \$344.9 million primarily due to gains on endowment investments due to a positive return on the endowment pool. Unrestricted net position increased \$587.2 million primarily due to the net increase in operating revenues in excess of operating expenses for the System. Net investment in capital assets increased \$27.5 million.
- Operating revenues were \$3.91 billion, and operating expenses were \$3.85 billion, resulting in net income from operations of \$63.8 million. Nonoperating and other revenues, net of nonoperating expenses, were \$895.8 million, including \$259.1 million in state appropriations.

Using the Financial Statements

The University presents its financial reports in a “business-type activity” format, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements and Management’s Discussion and Analysis for Public Colleges and Universities - an amendment of GASB Statement No. 34*. GASB requires that statements be presented on a comprehensive, entity-wide basis. In addition to this MD&A section, the financial report includes:

- Statements of Net Position
- Statements of Revenues, Expenses, and Changes in Net Position
- Statements of Cash Flows
- Statements of Fiduciary Net Position
- Statements of Changes in Fiduciary Net Position
- Notes to the Financial Statements
- Required Supplementary Information

Reporting Entity

The University is a component unit of the Commonwealth. The financial statements of the University include the operations of the University and the following entities:

- University of Kentucky Research Foundation and its for-profit subsidiary, Kentucky Technology, Inc.
- University of Kentucky Gluck Equine Research Foundation, Inc.
- University of Kentucky Humanities Foundation, Inc.
- University of Kentucky Mining Engineering Foundation, Inc.
- Central Kentucky Management Services, Inc.
- University of Kentucky Alumni Association, Inc.
- Kentucky Medical Services Foundation, Inc.
- University of Kentucky Real Estate Foundation, Inc.
- Beyond Blue Corporation

Statement of Net Position

The Statement of Net Position is the University’s balance sheet. It reflects the total assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position (equity) of the University as of June 30, 2021, with comparative information as of June 30, 2020. Liabilities due within one year, and assets available to pay those liabilities, are classified as current. Other assets and liabilities are classified as noncurrent. Net position (the difference between total assets and deferred outflows of resources and total liabilities and deferred inflows of resources) is an important indicator of the University’s current financial condition, while the change in net position is an indicator of whether the overall financial position has improved or eroded during the year. Generally assets, liabilities, deferred inflows of resources and deferred outflows of resources are reported using current values. A major exception is capital assets, net, which are stated at historical cost less accumulated depreciation.

A summarized comparison of the University's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position as of June 30, 2021, 2020 and 2019 are as follows:

Condensed Statements of Net Position (in thousands)

	<u>2021</u>	<u>2020</u>	<u>2019</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
Current assets	\$ 1,780,676	\$ 1,539,069	\$ 1,037,832
Capital assets, net	3,600,793	3,537,647	3,443,772
Other noncurrent assets	2,895,435	2,239,772	2,428,190
Deferred outflows of resources	41,608	33,593	38,317
Total assets and deferred outflows of resources	<u>8,318,512</u>	<u>7,350,081</u>	<u>6,948,111</u>
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES			
Current liabilities	647,558	576,625	490,552
Noncurrent liabilities	1,625,506	1,658,747	1,737,262
Deferred inflows of resources	553,988	582,839	541,744
Total liabilities and deferred inflows of resources	<u>2,827,052</u>	<u>2,818,211</u>	<u>2,769,558</u>
NET POSITION			
Net investment in capital assets	1,969,974	1,942,496	1,909,624
Restricted			
Nonexpendable	681,688	657,835	641,255
Expendable	800,444	479,403	521,014
Unrestricted	<u>2,039,354</u>	<u>1,452,136</u>	<u>1,106,660</u>
Total net position	<u>\$ 5,491,460</u>	<u>\$ 4,531,870</u>	<u>\$ 4,178,553</u>

Assets. As of June 30, 2021, total assets amounted to \$8.28 billion. The largest asset class was capital assets, net, that totaled \$3.60 billion or 44% of total assets. Endowment investments were \$1.86 billion, or 23% of total assets and cash and cash equivalents totaled \$1.30 billion, or 16% of total assets. Notes, loans and accounts receivable, net totaled \$871.8 million or 11% of total assets. During the year, total assets increased \$960.4 million primarily due to increases in endowment investments of \$498.4 million mainly due to favorable market conditions, other long-term investments of \$181.9 million mainly due to additional investments from cash reserves and favorable market conditions, notes, loans and accounts receivable, net of \$90.3 million due to an increase in third-party settlement receivables for the System. Cash and cash equivalents increased \$71.4 million and capital assets, net increased \$63.1 million.

Deferred Outflows of Resources. The University's deferred outflows of resources totaled \$41.6 million, an increase of \$8.0 million, primarily due to an increase in the net difference between projected and actual earnings in the plan investments offset by a decrease in OPEB contributions subsequent to the measurement date of \$9.4 million. It also includes the unamortized difference between the reacquisition price and the net carrying amount of refunded debt that decreased \$1.4 million.

Liabilities. As of June 30, 2021, total liabilities amounted to \$2.27 billion. Bonds, notes and capital leases issued for educational buildings, housing, the UK HealthCare Hospital System facilities, Athletics' football stadium, student center and equipment totaled \$1.16 billion, or 51% of total liabilities. During the year, total liabilities increased \$37.7 million primarily due to increases in accounts payable and accrued liabilities of \$74.9 million and an increase in net OPEB retiree health liabilities of \$14.3 million primarily due to a net loss in investments as of July 1, 2020 measurement date. Offsetting decreases were in bonds, notes and capital leases of \$51.7 million primarily due to principal payments and unearned revenue of \$27.2 million due primarily to the recognition of Provider Relief Funds (PRF) revenue in the current fiscal year that were received in the prior fiscal year to offset the financial impact of the COVID-19 pandemic.

Deferred Inflows of Resources. The University's deferred inflows of resources totaled \$554.0 million that represents service concession arrangements with Greystar of \$370.6 million, Aramark of \$100.9 million and Barnes and Noble of \$2.9 million. Deferred inflows of resources also includes trusts and annuities of \$19.2 million that represents the beneficial interest that the University will receive in future years and OPEB long-term disability and retiree health of \$57.4 million. During the year, deferred inflows of resources decreased \$28.9 million primarily due to a decrease in OPEB of \$18.8 million. Aramark and Greystar service concession arrangements decreased \$10.1 million and \$5.5 million, respectively, due to the amortization of earned revenue. These decreases were offset by increases in trusts and annuities of \$2.9 million and receipt of \$3.0 million from the Morgan Stanley forward delivery agreement relating to the General Receipts Bonds 2022 Series A to be issued in fiscal year 2022.

Net Position. The University's net position of \$5.49 billion as of June 30, 2021 is reported on the Statements of Net Position in three net position categories: net investment in capital assets, \$1.97 billion (36%); restricted nonexpendable, \$681.7 million (12%) and restricted expendable, \$800.4 million (15%); and unrestricted, \$2.04 billion (37%).

Restricted net position is subject to externally imposed restrictions governing its use. Although unrestricted net position is not subject to externally imposed stipulations, most of the unrestricted net position has been internally designated for support of academic and research programs and initiatives, capital projects and working capital requirements.

Total net position increased \$959.6 million during the year ended June 30, 2021. Net investment in capital assets increased \$27.5 million due to excess of additions of capital assets and principal payments of capital debt offset by depreciation expense. Restricted net position increased \$344.9 million primarily as a result of gains on endowment investments due to a positive return on the endowment pool. Unrestricted net position increased \$587.2 million, primarily due to the net increase in operating revenues in excess of operating expenses for the System.

2020 Versus 2019. During the year ended June 30, 2020:

- Total assets increased by a net of \$406.7 million primarily due to an increases in cash and cash equivalents of \$410.5 million and capital assets, net of \$93.9 million offset by decreases in other long-term investments of \$54.1 million and notes, loans and accounts receivable, net of \$40.1 million.
- Deferred outflows of resources decreased \$4.7 million due primarily to a decrease in OPEB contributions subsequent to the measurement date and offset by an increase in the net difference between projected and actual earnings in the plan investments and a decrease in the unamortized difference between the reacquisition price and the net carrying amount of refunded debt.
- Total liabilities increased \$7.6 million primarily attributable to increases in bonds, notes and leases liabilities of \$62.1 million due to the issuance of new bonds, accounts payable and accrued liabilities of \$43.4 million and unearned revenue of \$21.5 million offset by a decrease in net OPEB retiree health of \$113.6 million due to the change in assumptions in the OPEB valuation as well as the change from a self-funded carve-out plan to a Medicare Advantage plan.
- Deferred inflows of resources increased \$41.1 million primarily due to increases in the retiree health plan and the Barnes and Noble service concession arrangement offset by a decrease in the Greystar service concession arrangement.
- Total net position increased \$353.3 million. Net investment in capital assets increased \$32.9 million due to excess of additions of capital assets and principal payments of capital debt offset by depreciation expense. Restricted net position decreased \$25.0 million primarily as a result of losses on endowment investments due to a negative return on the endowment pool and spending on capital projects. Unrestricted net position increased \$345.5 million, primarily due to the net increase in operating revenues in excess of operating expenses for the System and the decrease in retiree health plan costs from changing to a Medicare Advantage plan.

Statement of Revenues, Expenses and Changes in Net Position

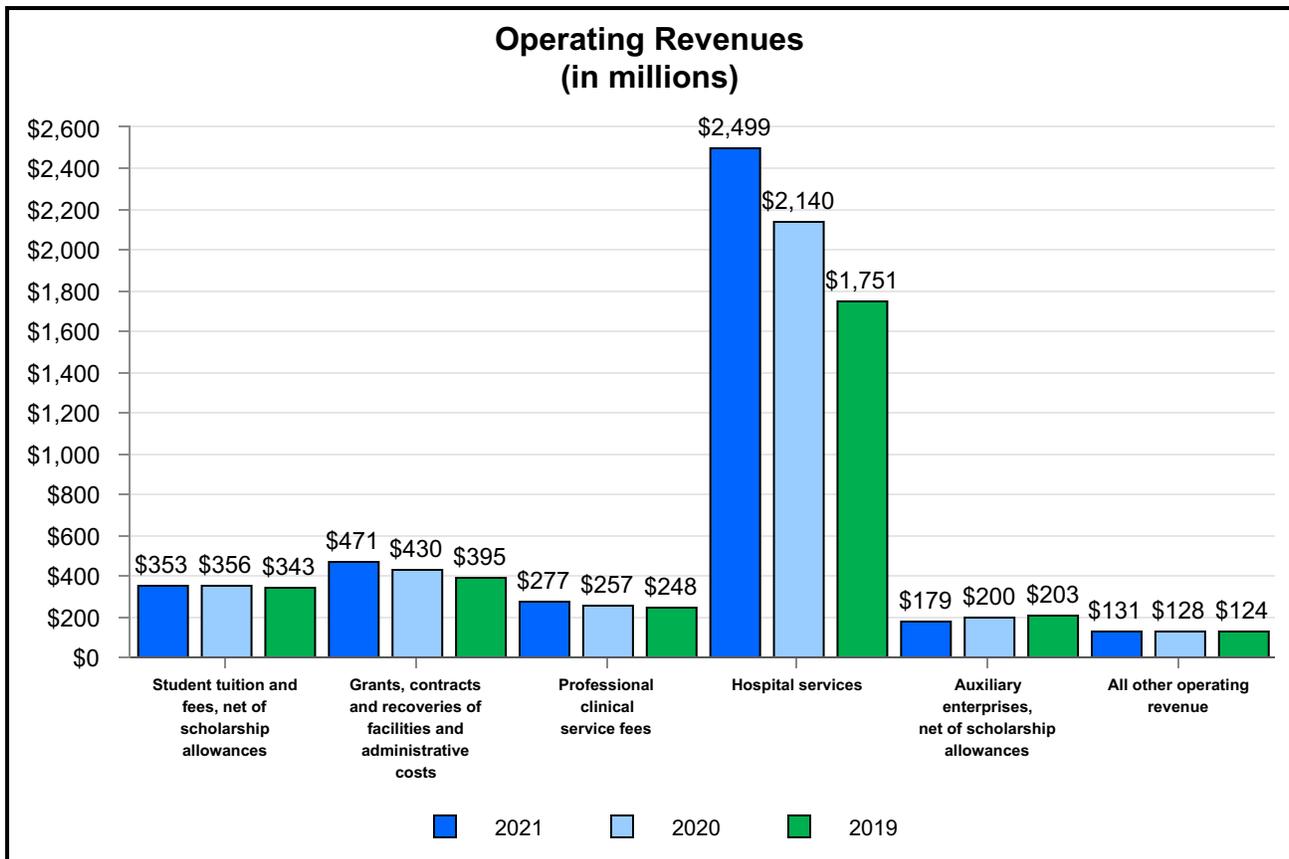
The Statement of Revenues, Expenses and Changes in Net Position is the University's income statement. It details how net position has changed during the year ended June 30, 2021, with comparative information for the year ended June 30, 2020. This statement is prepared on the accrual basis of accounting whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged. Items that increase or decrease net position appear on the Statement of Revenues, Expenses and Changes in Net Position as revenues, expenses, gains or losses.

Financial activities are reported as either operating or nonoperating. GASB Statement No. 35 requires state appropriations, gifts and investment income to be classified as nonoperating revenues. Accordingly, the University may report a net loss from operations prior to the addition of nonoperating revenues (expenses). The utilization of long-lived capital assets is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life. Tuition revenue is reduced by external scholarships and institutional aid and is reported net of the scholarship allowance.

A summarized comparison of the University's revenues, expenses and changes in net position for the years ended June 30, 2021, 2020 and 2019 are as follows:

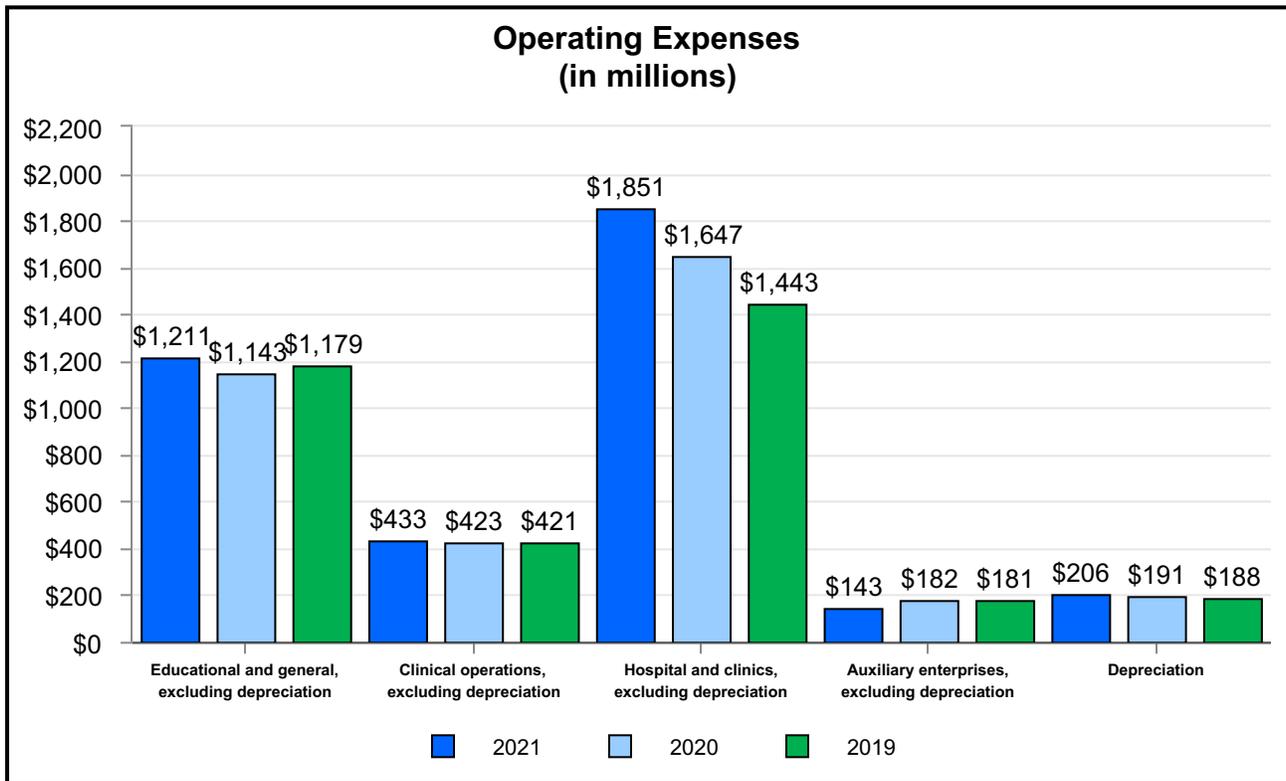
Condensed Statements of Revenues, Expenses and Changes in Net Position (in thousands)

	<u>2021</u>	<u>2020</u>	<u>2019</u>
OPERATING REVENUES			
Student tuition and fees, net of scholarship allowances	\$ 352,808	\$ 356,197	\$ 343,293
Grants and contracts	395,872	362,039	328,274
Recoveries of facilities and administrative costs	74,938	68,393	67,100
Sales and services	61,335	57,695	59,383
Federal and county appropriations	45,094	45,556	43,928
Professional clinical service fees	276,552	256,803	247,589
Hospital services	2,499,193	2,140,270	1,750,927
Auxiliary enterprises, net of scholarship allowances	178,994	199,782	203,119
Other operating revenues	24,482	24,608	21,138
Total operating revenues	<u>3,909,268</u>	<u>3,511,343</u>	<u>3,064,751</u>
OPERATING EXPENSES			
Educational and general, excluding depreciation	1,211,227	1,142,960	1,179,204
Clinical operations, excluding depreciation	433,323	423,099	421,301
Hospital and clinics, excluding depreciation	1,850,919	1,647,033	1,442,947
Auxiliary enterprises, excluding depreciation	142,990	181,663	181,119
Depreciation	205,963	191,223	188,145
Other operating expenses	1,046	576	2,014
Total operating expenses	<u>3,845,468</u>	<u>3,586,554</u>	<u>3,414,730</u>
NET INCOME (LOSS) FROM OPERATIONS	<u>63,800</u>	<u>(75,211)</u>	<u>(349,979)</u>
NONOPERATING REVENUES (EXPENSES)			
State appropriations	259,101	261,056	258,495
COVID-19 funding	70,065	20,248	—
Gift and non-exchange grants	118,451	115,636	120,885
Investment income	449,002	28,453	108,293
Interest on capital asset-related debt	(37,965)	(38,660)	(44,373)
Capital grants and gifts	25,998	35,584	71,570
Additions to permanent endowments	21,141	15,407	13,606
Other, net	(10,003)	(9,196)	34,546
Total nonoperating revenues	<u>895,790</u>	<u>428,528</u>	<u>563,022</u>
INCREASE IN NET POSITION	959,590	353,317	213,043
NET POSITION, beginning of year	<u>4,531,870</u>	<u>4,178,553</u>	<u>3,965,510</u>
NET POSITION, end of year	<u>\$ 5,491,460</u>	<u>\$ 4,531,870</u>	<u>\$ 4,178,553</u>



Total operating revenues were \$3.91 billion for the year ended June 30, 2021, an increase of \$397.9 million (11%). The primary components of operating revenues were student tuition and fees, net of scholarship allowances, of \$352.8 million; grants and contracts and recoveries of facilities and administrative costs of \$470.8 million; professional clinical service fees of \$276.6 million; and hospital services of \$2.50 billion.

The most significant increase was in hospital services revenue of \$358.9 million attributable primarily to an increase in net patient revenues due to increases in outpatient services with an activity increase of 194,457 in total outpatient visits or 28.2%. Directed Payments increased due to increased eligibility of Medicaid patients and higher commercial rates and prior years settlements for Medicaid Disproportionate Hospital revenue. Other significant increases in operating revenues are related to grants and contracts, and recoveries of facilities and administrative costs of \$40.4 million due to increases in federal and state grants and contracts; and professional clinical service fees of \$19.7 million.



Operating expenses totaled \$3.85 billion, an increase of \$258.9 million (seven percent). Of this amount, \$1.21 billion, excluding depreciation, was expended for educational and general programs, including instruction, research and public service. Clinical operations expenses, excluding depreciation, were \$433.3 million; hospital and clinics expenses, excluding depreciation, amounted to \$1.85 billion; auxiliary enterprises expenses, excluding depreciation, were \$143.0 million. Depreciation expense for the year amounted to \$206.0 million.

Educational and general expenses, excluding depreciation, increased \$68.3 million due primarily to increases in institutional support of \$65.7 million mainly due to reduced expenses for OPEB retiree health in prior year caused by the change from a self-funded carve-out plan to a Medicare Advantage plan, student service of \$14.8 million, research of \$9.7 million and public service of \$7.8 million offset by decreases in instruction of \$25.1 million, libraries of \$3.5 million and operations and maintenance of plant of \$2.8 million. Clinical operations expenses, excluding depreciation, increased \$10.2 million primarily due to the nine month extension of accrued vacation allotments for faculty and staff due to the COVID-19 pandemic. Hospital and clinics expenses, excluding depreciation, increased \$203.9 million primarily due to additional staffing and supplies. Auxiliary enterprises expenses, excluding depreciation, decreased \$38.7 million primarily due to decreases in athletics expenses of \$17.2 million, housing and dining of \$5.6 million and other auxiliary expenses of \$15.9 million due to the impact of the COVID-19 pandemic. Depreciation expense increased \$14.7 million primarily due to new buildings and renovations.

The net income from operations for the year was \$63.8 million. Nonoperating and other revenues, net of expenses, totaled \$895.8 million and included state appropriations of \$259.1 million, a decrease of \$2.0 million. COVID-19 funding totaled \$70.1 million, an increase of \$49.8 million. Gifts and non-exchange grants totaled \$118.5 million, an increase of \$2.8 million. Investment income totaled \$449.0 million, an increase of \$420.5 million; capital grants and gifts totaled \$26.0 million, a decrease of \$9.6 million; and additions to permanent endowments totaled \$21.1 million, an increase of \$5.7 million.

2020 Versus 2019. Total operating revenues were \$3.51 billion for the year ended June 30, 2020, including student tuition and fees, net of scholarship allowances, of \$356.2 million (10%); grants and contracts and recoveries of facilities and administrative costs of \$430.4 million (12%); professional clinical service fees of

\$256.8 million (seven percent); and hospital services of \$2.14 billion (61%). Operating revenues for fiscal year 2020 increased \$446.6 million (15%) over fiscal year 2019, primarily due to increases in hospital services revenue of \$389.3 million attributable to an increase in Directed Payments of \$391.6 million; grants and contracts and recoveries of facilities and administrative costs of \$35.1 million due to increases in federal and state grants and contracts; and professional clinical service fees of \$9.2 million.

Operating expenses totaled \$3.59 billion in fiscal year 2020. Of this amount, \$1.14 billion (32%), excluding depreciation, was expended for educational and general programs, including instruction, research and public service. Clinical operations expenses, excluding depreciation, totaled \$423.1 million (12%) of the total operating expenses; hospital and clinics expenses, excluding depreciation, were \$1.65 billion (46%); and auxiliary enterprises expenses, excluding depreciation, were \$181.7 million (five percent). Depreciation expense amounted to \$191.2 million (five percent). Operating expenses for fiscal year 2020 increased \$171.8 million (five percent) compared to fiscal year 2019 primarily due to an increase in hospital and clinics expenses, excluding depreciation, of \$204.1 million (14%); clinical operations expenses, excluding depreciation, of \$1.8 million (less than one percent); and depreciation expense of \$3.1 million (two percent). Auxiliary enterprises expenses, excluding depreciation, increased \$544 thousand (less than one percent). These increases were offset by a decrease in educational and general expenses, excluding depreciation, of \$36.2 million (three percent).

The net loss from operations for the 2020 fiscal year totaled \$75.2 million. Nonoperating and other revenues, net of expenses, totaled \$428.5 million, resulting in an increase in net position of \$353.3 million for the year. Nonoperating revenues (expenses) included state appropriations of \$261.1 million and \$258.5 million for the years ended June 30, 2020 and 2019, respectively.

Statement of Cash Flows

The Statement of Cash Flows details how cash has increased or decreased during the fiscal year ended June 30, 2021, with comparative financial information for the fiscal year ended June 30, 2020. The sources and uses of cash are arranged in the following categories:

- Operating activities
- Noncapital financing activities
- Capital and related financing activities
- Investing activities

Cash flows associated with the University's expendable net position appear in the operating and noncapital financing categories. Capital financing activities include payments for capital assets, proceeds from capital debt, and capital debt repayments. Purchases of investments and proceeds from sales and maturities of investments are reflected in investing activities.

The primary purpose of the Statement of Cash Flows is to provide information about the cash receipts and cash payments made by the University during the year that will allow financial statement readers to assess the University's ability to generate future net cash flows and to meet obligations as they become due, and to assess the possible need for external financing.

A comparative summary of the University's statement of cash flows for the years ended June 30, 2021, 2020 and 2019 are as follows:

Condensed Statements of Cash Flows (in thousands)

	2021	2020	2019
CASH PROVIDED (USED) BY:			
Operating activities	\$ 189,645	\$ 72,420	\$ (204,657)
Noncapital financing activities	464,147	457,042	409,469
Capital and related financing activities	(320,619)	(211,669)	(315,458)
Investing activities	(261,738)	92,701	33,893
Net increase (decrease) in cash and cash equivalents	71,435	410,494	(76,753)
CASH AND CASH EQUIVALENTS, beginning of year	1,231,285	820,791	897,544
CASH AND CASH EQUIVALENTS, end of year	\$ 1,302,720	\$ 1,231,285	\$ 820,791

The University's cash and cash equivalents increased \$71.4 million in fiscal year 2021. Total cash provided by operating activities was \$189.6 million, an increase of \$117.2 million. Total cash provided by noncapital financing activities was \$464.1 million, an increase of \$7.1 million. Total cash used by investing activities was \$261.7 million, a decrease of \$354.4 million. Total cash used by capital and related financing activities was \$320.6 million, an increase of \$108.9 million reflecting both capital funding sources (debt proceeds) and uses (purchases of capital assets and debt service).

Major sources of cash provided by operating activities were hospital services of \$2.34 billion; grants and contracts and recoveries of facilities and administrative costs of \$503.0 million; student tuition and fees of \$353.0 million; and professional clinical service fees of \$243.2 million. Major uses of cash for operating activities were payments to employees for salaries, wages and benefits of \$2.14 billion and to vendors and contractors of \$1.39 billion.

Noncapital financing activities include state appropriations from the Commonwealth of \$259.1 million, gifts and grants other than capital purposes of \$148.7 million, COVID-19 funding of \$65.6 million, and other payments of \$8.5 million.

Capital and related financing activities include \$260.2 million that was expended for construction and purchases of capital assets, \$96.7 million that was expended for principal and interest payments on capital debt and leases, capital grants and gifts of \$37.6 million and proceeds from capital debt of \$585 thousand.

Investing activities include cash of \$699.7 million used for purchases of investments, proceeds from sales and maturities of investments of \$423.9 million and interest and dividends on investments of \$14.0 million.

2020 Versus 2019. Cash balances were higher when comparing fiscal year 2020 to fiscal year 2019. The \$410.5 million increase in cash and cash equivalents was created from more cash provided by noncapital financing activities, investing activities and operating activities and less cash used by capital and related financing activities.

Capital Assets and Debt Administration

Capital Assets.

Capital assets, net of accumulated depreciation, totaled \$3.60 billion at June 30, 2021, an increase of \$63.1 million. Capital assets as of June 30, 2021, 2020 and 2019, and significant changes in capital assets during the years ended June 30, 2020 and 2021 are as follows (in millions):

	Balance June, 30 2019	Net Additions (Deletions) FY 2019-20	Balance June 30, 2020	Net Additions (Deletions) FY 2020-21	Balance June 30, 2021
Land and land improvements	\$ 322	\$ 10	\$ 332	\$ 7	\$ 339
Buildings, fixed equipment and infrastructure	4,101	158	4,259	126	4,385
Equipment, vehicles and capitalized software	862	55	917	118	1,035
Library materials and art	169	2	171	2	173
Certificate of need	12	—	12	—	12
Construction in progress	128	39	167	(33)	134
Accumulated depreciation	<u>(2,150)</u>	<u>(170)</u>	<u>(2,320)</u>	<u>(157)</u>	<u>(2,477)</u>
Total	<u>\$ 3,444</u>	<u>\$ 94</u>	<u>\$ 3,538</u>	<u>\$ 63</u>	<u>\$ 3,601</u>

At June 30, 2021, the University had commitments in construction in progress for capital projects totaling approximately \$376.4 million in scope. Major projects include the construction of the new Healthy Kentucky Research Building and health care facilities, and campus modernization efforts. The estimated cost to complete the projects in progress is approximately \$242.4 million.

Debt.

At June 30, 2021, capital debt amounting to \$1.16 billion, summarized by trust indenture and type, is as follows (in millions):

	2021	2020	2019
General Receipts bonds and notes	\$ 1,023	\$ 1,069	\$ 1,052
Capital lease obligations	116	121	83
Notes payable	<u>25</u>	<u>26</u>	<u>18</u>
Total	<u>\$ 1,164</u>	<u>\$ 1,216</u>	<u>\$ 1,153</u>

Debt decreased \$51.7 million during the year primarily due to the annual principal payments on the University's debt obligations of \$53.8 million offset by net additions to capital leases and other long-term obligations of \$2.1 million.

Economic and Other Factors That Will Affect the Future

During the 2020-21 academic year, few likely anticipated that the world as we know it would be upended; that a global health pandemic would threaten to significantly alter nearly every aspect of the economy and higher education. Together, campus leaders, faculty, staff, students, and families rose to the unprecedented challenges presented on college campuses during 2020 and into the 2021 school year. Post-pandemic resilience will require short-term academic and business agility, combined with long-term shifts in mission, values, strategy, and innovation.

Throughout the COVID-19 Pandemic, the University demonstrated both its agility and its commitment to the Commonwealth. Amid this unprecedented public health crisis, UK swiftly responded to honor its most important principles: protecting the health, safety, and well-being of everyone in our community and enabling our students, faculty, and staff to succeed. The University's ongoing response to the COVID-19 pandemic can viewed at <https://www.uky.edu/coronavirus/>.

Our goal is a return to a safe and healthy campus in fall 2021 that sets the institution on a transition course to thrive in a robust residential environment. The fall 2021 courses begin on August 23, 2021. Even though economic challenges will continue to have an impact on the future, senior leadership believes the University is well-positioned to maintain its fiscally sound condition and will continue to provide excellent services to students, patients, the community, and the citizens of the Commonwealth. This outlook, along with ongoing efforts toward revenue diversification, cost containment, efficiency and effectiveness initiatives, and COVID-19 funding opportunities, will enable the University to obtain the necessary resources to meet its strategic objectives.

The following are known facts and circumstances that will influence future financial results:

- Current challenges associated with COVID-19 obscure a decade of decline across the nation in college enrollment, crossing every sector. Even before the health pandemic, lower birth rates over the past twenty years resulted in fewer high school graduates. Additionally, Kentucky's in-state college rate continues to decline. According to the most recent data from the Kentucky Council on Postsecondary Education, the rate has fallen from 54.0% in 2015 to 50.5% in 2019. These trends will impact future enrollment efforts for both resident and non-resident undergraduate students. Most recent data illuminates further the impact of COVID-19 on enrollment. The National Student Clearinghouse Research Center (Clearinghouse) reported a four percent drop in undergraduate enrollment for Fall 2020 compared to Fall 2019 and a 2.7% increase in graduate enrollment. First-time beginning students account for the largest decline among the undergraduate population. The University of Kentucky freshmen entering college for the first time dropped by 8.5% in fall 2020 compared to fall 2019. In contrast, graduate enrollment increased by 8.3%. The Clearinghouse also released its 2021 Persistence and Retention Report. Persistence rate is measured by the percentage of students who return to college at any institution for their second year, and retention rate measures the percentage of students who return to the same institution. Of the 2.6 million students who entered college as first-time freshmen in fall 2019, 74% returned to college for their second year. Following several years of marked stability, this rate represents a pandemic-related, unprecedented one-year drop of two percentage points in this important student success indicator. Dips in both enrollment and now student attrition have multi-year revenue implications.
- Prior to the start of the coronavirus pandemic, the 2020 Session of the Kentucky General Assembly was poised to pass a biennial budget. As the economic realities of the health pandemic took hold, the Kentucky General Assembly ended its session with the passage of a one-year state budget that primarily held state appropriations for postsecondary education institutions flat and retained the state's performance-based funding model. Governor Andy Beshear announced in June 2021 the state's economy is resurging from the challenges of the past 15 months. The Commonwealth is positioned for significant sustained growth. In May 2021, Fitch Ratings improved the state's financial outlook to stable, reflecting the Commonwealth's solid economic recovery.
- Higher Education was navigating a multitude of disruptions even before the COVID-19 pandemic. The surge in knowledge needed in the workplace is outpacing the speed of learning in college. UK, like

other universities, was already retooling curricula to meet the emergent demands of an increasingly dynamic world of work and changing economy. Additional tuition revenue is projected to come from new and expanded programs launched in fiscal year 2020-21 and an increasing amount of UK's future enrollment growth is expected through online program offerings. More than 90 fully online certificate and degree programs are now available at UK. Certificate offerings such as the undergraduate certificate in Distillation, Wine and Brewing Studies are designed to respond to employer expectations.

- UK's fiscal year 2021-22 budget incentivizes the colleges to use these disruptions to grow enrollment and improve student success. The budget includes two performance-based models for the colleges, the Net Tuition Revenue model and the College Productivity model. Together, these models represent about \$13.7 million that the University will distribute directly to colleges based on their performance in meeting certain goals aligned with our most important priorities.
- Fiscal year 2021-22 marks the fifth year the Kentucky General Assembly used the performance funding model to allocate state appropriations to the public universities and the Kentucky Community and Technical College System. However, the Commonwealth, for the first time, invested new state funds into the model. The performance funding model is based on 11 metrics primarily focused on student success including bachelor's degrees produced, earned student credit hours, and undergraduate student retention and progression. The competitive-based model rewards universities with rates of growth that exceed the sector average on each metric. UK has performed extremely well – achieving the highest number of growth rates above the sector average for every year the model has been in use. For the fiscal year 2018-19 to fiscal year 2020-21 measurement period, UK achieved growth rates above the sector average on 10 out of the 11 metrics earning \$6.1 million or 45% of the total new state funds for fiscal year 2021-22.
- For the sixth year in a row, UK HealthCare was named the number one hospital in Kentucky by U.S. News and World Report, with the Markey Cancer Center ranked among the best cancer centers in the nation. Annual inpatient discharges from UK's hospitals are expected to exceed 40,700 by fiscal year 2021-22, an increase of 18.2% over ten years. The number of outpatient visits to UK's clinics are expected to exceed 2.4 million in fiscal year 2021-22, an increase of 156.6% over ten years. UK HealthCare entered a joint venture partnership agreement with King's Daughters Health System in January 2021 that created new opportunities for both organizations to better serve patients. The partnership will provide expanded access to tertiary-level services for residents of Eastern Kentucky and southern Ohio, including access to UK HealthCare's solid organ transplantation program, bone marrow transplantation and expand on the existing relationship between UK's Markey Cancer Center and King's Daughters.
- Across the nation, federal relief funding opportunities like CARES Act, PRF, Federal Emergency Management Agency, Higher Education Emergency Relief Fund (HEERF), Appalachian Regional Commission and other grant sources have been provided to colleges and universities for reimbursement of eligible expenses and foregone revenue related to the disruption of campus operations due to the COVID-19 pandemic. For example, UK was awarded \$50.2 million under the Coronavirus Response and Relief Supplemental Appropriations Act and American Rescue Plan for institutional costs and foregone revenue related to significant changes to prevent, prepare for, and respond to the coronavirus such as physical safety on campus and changes to the delivery of instruction. Additionally, \$41.4 million in federal relief funds have been directed toward student emergency financial aid grants to UK students whose education was disrupted by COVID-19. See footnote 1 for more details on the HEERF awards.
- Another expected fallout from the COVID-19 pandemic is anticipated changes in operating investment income. The target for the federal funds rate has varied widely over the years in response to prevailing economic conditions. It was set as high as 20.0% in the early 1980s in response to inflation. With the Great Recession of 2007–2009, the rate was slashed to a record low target of zero to .25% to encourage growth. The federal funds rate influences short-term interest rates, thereby affecting the amount of investment income the University earns on its daily operating cash balances. In response to the pandemic, the federal funds rate has fallen from 2.39% as of July 1, 2019, to 0.08% as of June 30, 2021. This change has dramatically reduced the University's fiscal year 2020-21 and fiscal year 2021-22 projected investment income from \$24.2 million to \$6.7 million, respectively.

- For the first time in UK's history, investigators received \$468.0 million in extramural grants and contracts to support their research in fiscal 2020-21. This is a nine percent increase from fiscal year 2019-20. Federal grants and contracts totaled \$281.2 million, accounting for 60% of UK's total awards in fiscal year 2020-21. Federal awards increased by \$8.9 million (3.3%) from fiscal year 2019-20. In total, 1,828 projects were awarded to 828 principal investigators from 604 sponsors in fiscal year 2020-21. At June 30, 2021, grants and contracts of approximately \$414.7 million have been awarded to the University, but not expended. These amounts will be recognized in future periods.
- In partnership with the Commonwealth, in July 2011, the University initiated the modernization and renewal capital projects. Over \$2.80 billion has been invested to protect historically significant buildings; increase building accessibility; and provide the infrastructure necessary to ensure student success and healthcare advancements that benefit all Kentuckians. The 2021 session of the Kentucky General Assembly renewed the authorization of the 241 capital projects requested by the University in its 2020-22 capital budget request. The UK Board of Trustees must approve any project with an estimated scope of \$1.0 million or more prior to initiation. The legislative authorizations include:
 - \$14.0 million in state funded bonds for the University's Improve Sanders-Brown Center on Aging/Neurosciences Facilities capital project,
 - Up to \$188.0 million in agency bonds for the next phase of the University's modernization and renewal initiative,
 - Up to \$100.0 million in agency bonds for UK HealthCare projects, and
 - Various other capital projects funded with agency bonds and agency funds.

Even though the COVID-19 pandemic continues to evolve, the university community has chosen to face the crisis as an opportunity to emerge stronger. Our wide array of programs allows us to excel in multidisciplinary studies and fosters an environment of cooperative engagement across all colleges, programs, and research endeavors. With compassion and grit, it has adopted new technology, business models and revamped campus operations. Now, more than ever, the future of higher education and the Commonwealth depend on the University of Kentucky to uplift the individuals and communities it so proudly serves.

UNIVERSITY OF KENTUCKY
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
STATEMENTS OF NET POSITION (in thousands)
JUNE 30, 2021 AND 2020

	2021	2020
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current Assets		
Cash and cash equivalents	\$ 1,078,955	\$ 1,024,241
Notes, loans and accounts receivable, net	563,345	430,761
Investments	49,223	16,119
Inventories and other assets	89,153	67,948
Total current assets	<u>1,780,676</u>	<u>1,539,069</u>
Noncurrent Assets		
Restricted cash and cash equivalents	223,765	207,044
Endowment investments	1,863,781	1,365,422
Other long-term investments	493,322	311,467
Notes, loans and accounts receivable, net	308,428	350,727
Other noncurrent assets	6,139	5,112
Capital assets, net	3,600,793	3,537,647
Total noncurrent assets	<u>6,496,228</u>	<u>5,777,419</u>
Total assets	8,276,904	7,316,488
Deferred Outflows of Resources		
Total assets and deferred outflows of resources	<u>41,608</u>	<u>33,593</u>
	8,318,512	7,350,081
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES		
Current Liabilities		
Accounts payable and accrued liabilities	378,032	303,115
Unearned revenue	181,367	189,741
Long-term liabilities - current portion	88,159	83,769
Total current liabilities	<u>647,558</u>	<u>576,625</u>
Noncurrent Liabilities		
Unearned revenue	210,955	229,799
Long-term liabilities	1,278,291	1,307,032
Net other postemployment benefit liability - retiree health	132,281	117,941
Net other postemployment benefit liability - long-term disability	3,979	3,975
Total noncurrent liabilities	<u>1,625,506</u>	<u>1,658,747</u>
Total liabilities	2,273,064	2,235,372
Deferred Inflows of Resources		
Total liabilities and deferred inflows of resources	<u>553,988</u>	<u>582,839</u>
	2,827,052	2,818,211
NET POSITION		
Net investment in capital assets	<u>1,969,974</u>	<u>1,942,496</u>
Restricted		
Nonexpendable		
Scholarships and fellowships	203,434	184,990
Research	291,817	289,902
Instruction	84,761	82,789
Academic support	87,057	86,082
Other	14,619	14,072
Total restricted nonexpendable	<u>681,688</u>	<u>657,835</u>
Expendable		
Scholarships and fellowships	162,062	88,440
Research	160,281	69,185
Instruction	84,413	48,228
Academic support	157,580	111,928
Loans	13,175	11,454
Capital projects	85,775	61,276
Auxiliary	49,290	38,673
Other	87,868	50,219
Total restricted expendable	<u>800,444</u>	<u>479,403</u>
Total restricted	<u>1,482,132</u>	<u>1,137,238</u>
Unrestricted		
Total net position	<u>\$ 5,491,460</u>	<u>\$ 4,531,870</u>

UNIVERSITY OF KENTUCKY
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (in thousands)
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

	2021	2020
OPERATING REVENUES		
Student tuition and fees	\$ 519,371	\$ 546,066
Less: Scholarship allowances	(166,563)	(189,869)
Net student tuition and fees	352,808	356,197
Federal grants and contracts	253,833	220,070
State and local grants and contracts	112,680	110,153
Nongovernmental grants and contracts	29,359	31,816
Recoveries of facilities and administrative costs	74,938	68,393
Sales and services	61,335	57,695
Federal appropriations	17,809	17,641
County appropriations	27,285	27,915
Professional clinical service fees	276,552	256,803
Hospital services	2,499,193	2,140,270
Auxiliary enterprises:		
Housing and dining	28,839	33,091
Less: Scholarship allowances	(512)	(1,025)
Net housing and dining	28,327	32,066
Athletics	108,406	115,784
Other auxiliaries	42,261	51,932
Other operating revenues	24,482	24,608
Total operating revenues	<u>3,909,268</u>	<u>3,511,343</u>
OPERATING EXPENSES		
Educational and general:		
Instruction	300,702	325,829
Research	314,581	304,848
Public service	218,322	210,496
Libraries	21,666	25,181
Academic support	90,939	89,322
Student services	60,661	45,885
Institutional support	65,691	10
Operations and maintenance of plant	89,036	91,831
Student financial aid	49,629	49,558
Depreciation	82,857	77,193
Total educational and general	1,294,084	1,220,153
Clinical operations (including depreciation of \$10,843 in 2021 and \$9,134 in 2020)	444,166	432,233
Hospital and clinics (including depreciation of \$76,226 in 2021 and \$69,025 in 2020)	1,927,145	1,716,058
Auxiliary enterprises:		
Housing and dining (including depreciation of \$10,921 in 2021 and \$11,191 in 2020)	25,332	31,167
Athletics (including depreciation of \$17,717 in 2021 and \$17,397 in 2020)	126,874	143,790
Other auxiliaries (including depreciation of \$7,399 in 2021 and \$7,283 in 2020)	26,821	42,577
Other operating expenses	1,046	576
Total operating expenses	<u>3,845,468</u>	<u>3,586,554</u>
Net income (loss) from operations	<u>63,800</u>	<u>(75,211)</u>
NONOPERATING REVENUES (EXPENSES)		
State appropriations	259,101	261,056
COVID-19 funding	70,065	20,248
Gifts and non-exchange grants	118,451	115,636
Investment income	449,002	28,453
Interest on capital asset-related debt	(37,965)	(38,660)
Other nonoperating revenues and expenses, net	(7,235)	1,550
Net nonoperating revenues	<u>851,419</u>	<u>388,283</u>
Net income before other revenues, expenses, gains or losses	<u>915,219</u>	<u>313,072</u>
Capital grants and gifts	25,998	35,584
Additions to permanent endowments	21,141	15,407
Other, net	(2,768)	(10,746)
Total other revenues	<u>44,371</u>	<u>40,245</u>
INCREASE IN NET POSITION	<u>959,590</u>	<u>353,317</u>
NET POSITION, beginning of year	<u>4,531,870</u>	<u>4,178,553</u>
NET POSITION, end of year	<u>\$ 5,491,460</u>	<u>\$ 4,531,870</u>

UNIVERSITY OF KENTUCKY
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
STATEMENTS OF CASH FLOWS (in thousands)
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	\$ 353,018	\$ 358,119
Grants and contracts	430,418	337,233
Recoveries of facilities and administrative costs	72,551	67,449
Sales and services	60,948	56,656
Federal appropriations	17,789	17,955
County appropriations	28,739	28,389
Payments to vendors and contractors	(1,391,925)	(1,239,091)
Student financial aid	(48,021)	(49,574)
Salaries, wages and benefits	(2,135,991)	(2,138,393)
Professional clinical service fees	243,207	258,164
Hospital services	2,342,419	2,173,166
Auxiliary enterprises receipts	198,152	183,764
Loans issued to students	(13,442)	(20,899)
Collection of loans to students	14,391	23,299
Self insurance receipts	77,599	69,649
Self insurance payments	(82,894)	(74,560)
Other receipts	22,687	21,094
Net cash provided by operating activities	189,645	72,420
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	259,101	261,056
COVID-19 funding	65,579	60,182
Gifts and grants received for other than capital purposes:		
Gifts received for endowment purposes	21,141	15,407
Gifts received for other purposes	127,538	119,408
Agency and loan program receipts	246,149	256,328
Agency and loan program payments	(246,885)	(255,923)
Other financing receipts (payments)	(8,476)	584
Net cash provided by noncapital financing activities	464,147	457,042
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital grants and gifts	37,613	55,191
Purchases of capital assets	(260,168)	(239,272)
Proceeds from capital debt	585	71,471
Proceeds from sales of capital assets	77	335
Principal paid on capital debt and leases	(53,831)	(50,568)
Interest paid on capital debt and leases	(42,902)	(42,429)
Other financing payments	(1,993)	(6,397)
Net cash used by capital and related financing activities	(320,619)	(211,669)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	423,929	720,721
Interest and dividends on investments	14,023	44,400
Purchases of investments	(699,690)	(672,420)
Net cash provided (used) by investing activities	(261,738)	92,701
NET INCREASE IN CASH AND CASH EQUIVALENTS	71,435	410,494
CASH AND CASH EQUIVALENTS, beginning of year	1,231,285	820,791
CASH AND CASH EQUIVALENTS, end of year	\$ 1,302,720	\$ 1,231,285

UNIVERSITY OF KENTUCKY
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
STATEMENTS OF CASH FLOWS (in thousands)
FOR THE YEARS ENDED JUNE 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Reconciliation of net income (loss) from operations		
to net cash provided (used) by operating activities:		
Net income (loss) from operations	\$ 63,800	\$ (75,211)
Adjustments to reconcile net income (loss) from operations		
to net cash provided by operating activities:		
Depreciation expense	205,963	191,223
Change in assets and liabilities:		
Notes, loans and accounts receivable, net	(123,237)	(97)
Inventories and other assets	(21,989)	(3,945)
Deferred outflows of resources	(9,368)	3,246
Accounts payable and accrued liabilities	78,089	39,099
Unearned revenue	(13,732)	(9,168)
Long-term liabilities	22,941	(5,439)
OPEB liabilities	14,345	(115,011)
Deferred inflows of resources	(27,167)	47,723
Net cash provided by operating activities	<u>\$ 189,645</u>	<u>\$ 72,420</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Capital lease additions	\$ 1,576	\$ 47,553
Gifts of capital assets	\$ 3,929	\$ 5,114
Gifts of other assets held for sale	\$ 9,400	\$ —
Capital asset change in accounts payable and long-term liabilities	\$ 9,480	\$ 4,337
Capital asset additions by service concession arrangements	\$ —	\$ 3,268
Capitalized interest, net of investment income	\$ 4,355	\$ 4,026
Amortized bond discount and premium	\$ 6,658	\$ 7,137
Amortized difference between reacquisition price and net carrying		
amount of refunded debt	\$ 1,353	\$ 1,478
Capital asset trade in	\$ 488	\$ 624
Investment unrealized gains (losses)	\$ 410,526	\$ (29,479)

UNIVERSITY OF KENTUCKY
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
STATEMENTS OF FIDUCIARY NET POSITION (in thousands)
JUNE 30, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash and cash equivalents	\$ 6,496	\$ 6,289
Accrued interest receivable	16	11
Investments	<u>261,672</u>	<u>194,387</u>
Total assets	<u>268,184</u>	<u>200,687</u>
LIABILITIES		
Accounts payable and accrued liabilities	<u>—</u>	<u>—</u>
Total liabilities	<u>—</u>	<u>—</u>
NET POSITION		
Net position restricted for postemployment benefits other than pensions	<u>\$ 268,184</u>	<u>\$ 200,687</u>

UNIVERSITY OF KENTUCKY
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION (in thousands)
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
Additions		
Investment income (loss):		
Interest and dividend income	\$ 2,649	\$ 2,728
Net appreciation (depreciation) in fair value of investments	<u>62,132</u>	<u>(3,422)</u>
Net investment income (loss)	<u>64,781</u>	<u>(694)</u>
Contributions:		
University of Kentucky	15,139	16,081
Beneficiaries	<u>3,951</u>	<u>3,719</u>
Total contributions	<u>19,090</u>	<u>19,800</u>
Total additions	<u>83,871</u>	<u>19,106</u>
Deductions		
Administrative expenses	1,885	1,675
Payments to retirees and beneficiaries	<u>14,489</u>	<u>14,202</u>
Total deductions	<u>16,374</u>	<u>15,877</u>
INCREASE IN NET POSITION	67,497	3,229
NET POSITION restricted for postemployment benefits other than pensions, beginning of year	<u>200,687</u>	<u>197,458</u>
NET POSITION restricted for postemployment benefits other than pensions, end of year	<u>\$ 268,184</u>	<u>\$ 200,687</u>

UNIVERSITY OF KENTUCKY
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The University of Kentucky (the University) is a component unit of the Commonwealth of Kentucky (the Commonwealth) and is included in the basic financial statements of the Commonwealth. The financial statements of the University include the operations of the University and its affiliated non-profit corporations (entities for which the University is financially accountable as defined by Statement No. 14 and amended by Statements No. 39, No. 61 and No. 80 of the Governmental Accounting Standards Board (GASB), and which meet the definition of an affiliated corporation under Kentucky Revised Statutes (KRS) section 164A.550). The affiliates are presented as blended component units since University management has operational responsibility for each affiliated corporation and are as follows:

- University of Kentucky Research Foundation (UKRF) and its for-profit subsidiary, Kentucky Technology, Inc. (KTI). KTI has a calendar-year based fiscal year from January 1 through December 31. Therefore, the financial statement of KTI as of December 31, 2020 and 2019 are included in the UKRF's financial statement as of June 30, 2021 and 2020, respectively.
- University of Kentucky Gluck Equine Research Foundation, Inc. (UKGERF)
- University of Kentucky Humanities Foundation, Inc. (UKHF)
- University of Kentucky Mining Engineering Foundation, Inc. (UKMEF)
- Central Kentucky Management Services, Inc. (CKMS)

The financial statements of the University also include non-profit entities for which the University is financially accountable as defined by GASB, but which are not affiliated corporations under KRS and are as follows:

- Kentucky Medical Services Foundation, Inc. (KMSF)
- University of Kentucky Alumni Association (UKAA)
- University of Kentucky Real Estate Foundation (UKREF)

KMSF and UKREF are included within the University reporting entity as blended component units as they provide services entirely to the University. UKAA is included within the University reporting entity as a blended component unit as it has a dual reporting/funding model which integrates UKAA with the University.

The financial statements of the University also include the operations of organizational units of the University and are as follows:

- Kentucky Tobacco Research and Development Center (KTRDC)
- WUKY Radio
- UK HealthCare Hospital System (the System) which includes the following:
 - Beyond Blue Corporation (BBC), a wholly owned non-profit subsidiary that manages the joint venture between the System and King's Daughters Health System that began on April 1, 2021
 - Kentucky Healthcare Enterprise, Inc., a wholly owned for-profit subsidiary
 - Surgery Blue, LLC, a wholly owned for-profit subsidiary and its for-profit subsidiary, Surgery Center of Lexington, LLC (SCL) (51% ownership). SCL has a calendar-year based fiscal year from January 1 through December 31. Therefore, the financial statement of SCL as of December 31, 2020 and 2019 are included in the System's financial statements as of June 30, 2021 and 2020, respectively.

The separate financial statements for the above entities can be found at: www.uky.edu/ufs/financial-statements-and-investor-information.

The other post-employment benefit plans (OPEB Plans or Plans) are single-employer defined OPEB benefit plans included in the financial statements as OPEB trust fiduciary funds. The University Board of Trustees (the Board) performs the governing duties of the Plans, as the Plans do not have a separate Board. The fiduciary fund statements are presented as of June 30, 2021 and 2020, the Plans' fiscal year-ends.

The Plans are presented as fiduciary component units in the University's financial statements. The Plans are legal separate entities, and the University appoints a voting majority of the Plans' governing body, provides specific financial benefits to the Plans and the Plans impose financial burden on the University.

Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the GASB. The GASB establishes standards for external financial reporting for public colleges and universities and requires that resources be classified for accounting and financial reporting purposes into the following net position categories:

- Net investment in capital assets: Capital assets, net of accumulated depreciation, outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets, deferred outflow of resources and deferred inflow of resources.
- Restricted:
 - Nonexpendable* - Net position subject to externally imposed stipulations that they be maintained permanently by the University. Such assets include the principal of the University's permanent endowment funds.
 - Expendable* - Net position whose use by the University is subject to externally imposed stipulations that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time.
- Unrestricted: Net position whose use by the University is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the Board or may otherwise be limited by contractual agreements with outside parties.

The financial statement presentation is intended to provide a comprehensive, entity-wide perspective of the University's assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues, expenses, changes in net position and cash flows. The fiduciary funds financial statement presentation is intended to report the assets held in trust for the beneficiaries of the OPEB Plans and focuses on the fiduciary net position and the changes in fiduciary net position.

Summary of Significant Accounting Policies

Accrual Basis. The financial statements have been prepared on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when an obligation has been incurred. The University reports as a Business-Type Activity (BTA) as defined by GASB Statement No. 35. BTAs are those activities that are financed in whole or part by fees charged to external parties for goods and services.

Cash and Investments. The University considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. The University also considers the investments held in the investment pool with the Commonwealth to be cash equivalents.

Noncurrent cash and cash equivalents include plant funds allocated for capital projects, debt service reserves, grant funds with restricted purposes and endowment fund cash pending transfer to the custodian for investment. Cash and cash equivalents held by bond trustees and the University's endowment fund managers are included in investments.

Investments in marketable debt, equity securities and negotiable certificates of deposit are carried at fair value, as determined by the major securities markets. Alternative investments are stated at net asset value. Life insurance policies, negotiable certificates of deposits and guaranteed investment contracts are stated at cost. See note 2 for more information on the fair value determination. Changes in unrealized gains (losses) on the carrying value of investments are reported as a component of investment income (loss) in the Statements of Revenues, Expenses and Changes in Net Position.

Notes, Loans and Accounts Receivable. This classification consists of tuition and fee charges to students; charges for auxiliary enterprise services provided to students, faculty and staff; and loans to students. Also included are patient accounts receivable; amounts due from the Commonwealth for capital projects; amounts due from sponsors for reimbursement of expenses made pursuant to grants and contracts; amounts due under multimedia rights contract and service concession arrangements; and pledges that are verifiable, measurable and expected to be collected. Accounts receivable is recorded net of estimated uncollectible amounts based upon a review of outstanding receivables, historical collection information, and existing economic conditions.

Inventories. Inventories are stated at the lower of average cost or market value.

Pooled Endowment Funds. All endowments are managed in a consolidated investment pool, which consists of more than 2,400 named funds. All contributing endowments participate in the income and appreciation of the pool on a per unit basis commensurate with their contribution to the pool. New endowments purchase units in the pool at the current unit value, which is calculated each month based on the fair value of the pool investments divided by the number of pool units outstanding. The market value method of accounting for pooled endowment funds is employed to ensure proper distribution of market price changes, realized gains (losses) on sales, accrued income earned, and distribution of investment earnings for expenditure by participating funds.

In accordance with the Kentucky Uniform Prudent Management of Institutional Funds Act (UPMIFA), as adopted by the Commonwealth in July 2010, the University employs a total return method for establishing investment objectives and spending policies designed to achieve financial equilibrium for endowment funds over the long-term. The University makes expenditure decisions in accordance with UPMIFA and donor gift agreements. UPMIFA prescribes guidelines for expenditure of a donor-restricted endowment fund (in the absence of overriding, explicit donor stipulations) and focuses on the entirety of a donor-restricted endowment fund, that is, both the original gift amount(s) and net appreciation. In accordance with the standard of prudence prescribed by UPMIFA and consistent with industry standards, the University has adopted a spending policy with the long-term objective to maintain the purchasing power of each endowment and provide a predictable and sustainable level of income to support current operations.

The adopted spending policy is a "hybrid" policy, which includes both the market value of the endowment and the current level of inflation in determining spending each year. Annual spending is calculated by taking a weighted average comprising 60% of the prior year's spending, adjusted for inflation, and 40% of the amount that results when the target annual spending rate of four percent is applied to the average market value of the endowment over the preceding 36 months. The spending amount determined by the formula is constrained so that the calculated rate is at least 3.5%, and not more than five percent, of the current endowment market value.

The University also utilizes an endowment management fee to support internal management and fundraising costs related to the endowment. Effective July 1, 2018, the management fee can be temporarily increased by up to 0.5%, for a maximum annual assessment of one percent, to support additional expenses related to the capital campaign. For the years ended June 30, 2021 and 2020, the University's annual endowment management fee was 0.9%.

To protect endowment funds from permanent impairment of value, spending and management fee withdrawals are suspended on endowments with a market value less than the contributed value by more than 20%. Additionally, endowments with a market value less than the contributed value by more than 10%

undergo a formal review to determine the appropriate level of spending in accordance with various factors set forth in UPMIFA. All donor restrictions and stipulations prevail in decisions regarding preservation and spending of endowment funds.

The components of the University's spending policy distribution and management fee for the years ended June 30, 2021 and 2020 are as follows (in thousands):

	2021	2020
Gross spending policy distribution	\$ 50,992	\$ 47,901
Reinvested spending policy distribution	(25,075)	(23,745)
Net spending policy distribution	<u>\$ 25,917</u>	<u>\$ 24,156</u>
Management fee	<u>\$ 12,203</u>	<u>\$ 10,918</u>

Capital Assets. Capital assets are stated at cost at the date of acquisition or, in the case of gifts, at acquisition value in accordance with GASB Statement No. 72.

The University capitalizes interest costs as a component of construction in progress based on the interest cost of borrowing specifically for a currently active project, net of interest earned on investments acquired with the proceeds of the borrowing. The University also capitalizes interest costs as a component of construction in progress on projects funded by unrestricted funds based on the interest costs of borrowings no longer associated with a specific project. The calculation is based on a project's weighted average accumulated expenditures times the weighted average interest rate on borrowings.

Equipment with a unit cost of \$5 thousand or more (\$2 thousand or more for KMSF, \$2,500 or more for KTI and \$1 thousand or more for UKAA) and having an estimated useful life of greater than one year is capitalized. Institutional software costing more than \$400 thousand is capitalized. Renovations to buildings, infrastructure and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense is incurred.

Depreciation of capital assets is computed on a straight-line basis over the estimated useful lives of the respective assets, generally 75 years for student housing buildings under the Greystar service concession agreement, 40 years for other buildings, 10 - 25 years for land improvements, building improvements and infrastructure, 10 years for library books and capitalized software, and 3 - 20 years for equipment and vehicles.

The University capitalizes, but does not depreciate, works of art, historical treasures and certain library materials that are held for exhibition, education, research and public service.

The University evaluates capital assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of a capital asset has occurred. If a capital asset is tested for impairment and the magnitude of the decline in service utility is significant and unexpected, the accumulated depreciation will be accelerated. The amount of the impairment loss will be recorded as the net book value divided proportionately over its remaining years of useful life. Asset impairments of \$344 thousand and \$309 thousand were recognized during the years ended June 30, 2021 and 2020, respectively.

Deferred Outflows of Resources. A deferred outflow of resources is a loss in net position by the University that is applicable to a future reporting period. Deferred outflows of resources are reported in the Statements of Net Position, but are not recognized in the financial statements as expense until in the related period.

Unearned Revenue. Unearned revenue consists primarily of amounts received from grant and contract sponsors that have not yet been earned under the terms of the agreement. Unearned revenue also includes amounts received from multimedia rights pursuant to contract agreement and amounts received in advance of

an event, such as athletic ticket sales relating to future fiscal years, unearned hospital reimbursement revenue and unearned summer school revenue. Unearned revenue is recognized in the period to which the grant, event or semester relates.

Compensated Absences. The amount of vacation leave earned but not taken by employees at June 30, 2021 and 2020 is recorded as a liability by the University. Temporary disability leave payable upon termination under the University's payout policy is also recorded as a liability. Compensated absence liabilities are computed using the pay rates in effect at the Statement of Net Position date plus an additional amount for compensation-related payments, such as Social Security and Medicare taxes computed using rates in effect at that date.

Deferred Inflows of Resources. A deferred inflow of resources is a gain in net position by the University that is applicable to a future reporting period. Deferred inflows of resources are reported in the Statements of Net Position but are not recognized in the financial statements as revenue until in the related period.

Scholarship Allowances. Student tuition and fees are presented net of scholarship allowances applied to student accounts. Stipends and other payments made directly to students are presented as student financial aid expenses. Scholarship allowances are the difference between the stated charge for goods and services provided by the University and the amount that is paid by students or third parties on behalf of the students. Certain governmental grants, such as Pell grants and other similar federal and state programs, are recorded as nonoperating revenues; other governmental and nongovernmental grants are recorded as operating revenues in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship allowance.

Hospital and Clinical Services Revenues. Hospital and clinical services revenues are reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered, including contractual allowances and estimated retroactive adjustments under reimbursement programs with third-party payers, less a provision for doubtful accounts. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient skilled nursing services are paid at prospectively determined per diem rates that are based on the patients' acuity. Certain inpatient non-acute services and defined medical education costs are paid based on a cost reimbursement methodology. The System is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the System and audits thereof by the Medicare fiscal intermediary.

Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology for certain services and at prospectively determined rates for all other services. The System is reimbursed for cost reimbursable services at tentative rates with final settlement determined after submission of annual cost reports by the System and audits thereof by the Medicaid fiscal intermediary.

Revenue from the Medicare and Medicaid programs accounted for approximately 39% and 19%, respectively, of the System's net patient services revenues before the provision for doubtful accounts for the year ended June 30, 2021 and approximately 39% and 20%, respectively, for the year ended June 30, 2020. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. With the impact of the COVID-19 pandemic and unemployment, more Kentuckians applied for and received presumptive Medicaid. These changes have an impact on Medicaid payments. Prior year audits were completed and the System was able to recognize \$93.6 million of Medicaid Disproportionate Share (DSH) revenue and other settlements during fiscal year 2021, of which \$20.5 million was previously reserved in estimated third-party payer settlements in the fiscal year 2020 Statement of Net Position. The Medicaid calculation methodology for supplemental payments was adjusted during fiscal year

2020 and is now referred to as Directed Payments. These payments replace the Medicaid Managed Care Organization's portion of Intensity Operating Allowance and Physician Supplemental Payments. With Directed Payments, there is no longer an uncompensated gap that is typically filled with DSH payments. Therefore, the System did not qualify for Medicaid DSH payments for fiscal year 2021 or fiscal year 2020. The Directed Payments are the difference between the System's average commercial rate and the rates Medicaid Managed Care Organizations pay for healthcare services. These payments are applicable to both inpatient and outpatient hospital services. A per day and per visit gap has been calculated and is applied to Medicaid Managed Care volume. The program is based upon data two years in arrears. The payments are based upon two components: access and quality. For fiscal year 2021, access is 90% of the program and quality is 10%. The Commonwealth withholds the quality component as well as an additional 5% for reconciliation, which occurs 14 months following the end of the first quarter, i.e., November 2021 for July through September 2020. A receivable for these payments has been applied to the third party liability account for fiscal year 2021. Directed Payments of \$482.3 million and \$391.6 million were recognized in net patient service revenue in fiscal years 2021 and 2020, respectively. The Center for Medicaid Services has now waived reconciliation for fiscal year 2021. The Department of Medicaid Services will be refunding the 5% withheld in the near future thus relieving this receivable.

The System also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the System under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Charity Care. The System provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Since the System does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The amount of charges forgone for the services and supplies furnished under the System's charity care policy aggregated to approximately \$35.8 million and \$65.1 million for the years ended June 30, 2021 and 2020, respectively. The costs of charity care provided under the System's charity care policy were \$10.1 million and \$17.2 million for the years ended June 30, 2021 and 2020. The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross uncompensated charges.

Management Contract Revenue. The System entered into a contract with the Kentucky Cabinet for Health and Family Services to manage Eastern State Hospital (ESH) and Central Kentucky Recovery Center (CKRC). Under the contract the System is reimbursed 100% of the related operating expenses up to a limit of \$37.3 million and \$35.9 million for ESH for the years ended June 30, 2021 and 2020, respectively; and \$2.2 million and \$2.1 million for CKRC for the years ended June 30 2021 and 2020, respectively. The System also receives an eight percent management fee. The initial contract term was August 13, 2013 to June 30, 2014 with the option to renew the contract for additional one-year terms. The contract was renewed for the period of July 1, 2021 to June 30, 2022 with substantially the same terms.

Higher Education Emergency Relief Funds (HEERF). The spread of the SARS-CoV-2 virus and the incident of COVID-19 impacted and disrupted the University's operations over the past year. Adhering to public safety measures and government mandates resulted in limited or cancelled events and activities, including changes to how the University delivered educational and related auxiliary services during fiscal year 2021. The University plans on a widespread return to on-campus and normal operations and activities in the fall of 2021.

The full financial impact of the COVID-19 pandemic to the University cannot be reasonably estimated at this time because of the uncertainties and disruptions caused by COVID-19. There may be short and long-term implications to the University's operations.

The federal government relief funds were created to help offset revenue losses and expense increases that colleges and universities faced because of COVID-19. The Coronavirus Aid, Relief, and Economic Security Act (CARES) created HEERF to provide financial relief to students and institutions impacted by the COVID-19 pandemic. The Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA) and the American Rescue Plan (ARP) provided additional rounds of HEERF (II and III) funds to schools. The HEERF

funds contained two components, an institutional award and a student aid award. The student aid portion is distributed to students in the form of emergency financial aid grants to generally cover any component of the cost of attendance for the distribution of education or emergency costs that arose due to the COVID-19 pandemic.

The University applied for and received \$91.7 million in HEERF funding, consisting of \$50.3 million in institutional aid and \$41.4 million in student aid. The institutional portion can be used for multiple items, but primarily to cover lost revenue, defray and pay for expenses related to the disruption of campus operations due to COVID-19, and reimburse for costs associated with a transition to a distance education environment. As of June 30, 2021, the unexpended portion of all the funds was \$47.2 million.

The following cumulative amounts have been awarded as of June 30, 2021, and 2020 (in thousands):

	2021			2020		
	Student Portion	Institutional Portion	Total	Student Portion	Institutional Portion	Total
<u>Awarded</u>						
HEERF I	\$ —	\$ —	\$ —	\$ 8,906	\$ 8,906	\$ 17,812
HEERF II	8,906	17,824	26,730	—	—	—
HEERF III	23,635	23,525	47,160	—	—	—
	<u>\$ 32,541</u>	<u>\$ 41,349</u>	<u>\$ 73,890</u>	<u>\$ 8,906</u>	<u>\$ 8,906</u>	<u>\$ 17,812</u>

The following amounts have been recorded as nonoperating revenue - COVID-19 funding in the financial statements for the years ended June 30, 2021, and 2020: (in thousands):

	2021			2020		
	Student Portion	Institutional Portion	Total	Student Portion	Institutional Portion	Total
<u>Amounts Applied</u>						
HEERF I	\$ 2	\$ —	\$ 2	\$ 8,904	\$ 8,906	\$ 17,810
HEERF II	8,906	17,824	26,730	—	—	—
HEERF III	—	—	—	—	—	—
	<u>\$ 8,908</u>	<u>\$ 17,824</u>	<u>\$ 26,732</u>	<u>\$ 8,904</u>	<u>\$ 8,906</u>	<u>\$ 17,810</u>

Provider Relief Funds (PRF). The CARES Act was passed by Congress and signed into law by President Donald Trump on March 27, 2020. This over \$2 trillion economic relief package delivers on the federal government's commitment to protecting the American people from the public health and economic impacts of COVID-19. Based on the CARES Act, the federal government distributed direct payments through PRF to the University in the amount of \$30.9 million, which was recognized as unearned revenue in the Statements of Net Position in fiscal year 2020 and as nonoperating revenue in fiscal year 2021. KMSF received and recognized \$2.3 million as revenue in fiscal year 2020. The University is accounting for such payments as voluntary nonexchange transactions. Revenue is recognized when all eligibility requirements have been met. These payments are recorded as nonoperating revenue - COVID-19 funding in the University's Statements of Revenues, Expenses and Changes in Net Position. To receive from PRF, a provider must have billed Medicare fee-for-services and provide diagnoses, testing, or care for individuals with possible or actual cases of COVID-19. PRF, if used within the terms and conditions of the program, do not need to be repaid to the federal government. The provider is required to use the payments for healthcare related expenses or lost revenues that are attributable to coronavirus. If the University has unused funds at June 30, 2021, those funds will need to be returned. Appropriate expenses include healthcare-related expenses or lost revenue due to the coronavirus, which includes prevention, preparation, training, reporting, treatment, and declined services. PRF is subject to government oversight, including potential audits.

CARES Act. The CARES Act provides for a deferral of payments of the employer portion of payroll tax incurred during the pandemic, allowing half of such payroll taxes be deferred until December 2021 and the remaining half until December 2022. At June 30, 2021 and 2020, the University had deferred \$44.9 million and \$0, respectively, of payroll taxes recorded in accounts payable and accrued liabilities and noncurrent long-term liabilities in the accompanying Statements of Net Position.

Income Taxes. The University is an agency and instrumentality of the Commonwealth, pursuant to KRS sections 164.100 through 164.280. Accordingly, the University is excluded from federal income taxes as an organization described in section 115 of the Internal Revenue Code (IRC) of 1986, as amended. Each of the University's affiliated non-profit organizations has received a determination from the Internal Revenue Service granting exemption from federal income taxation pursuant to the provisions of IRC section 501(c)(3). KMSF and the UKAA are not-for-profit corporations as described in section 501(c)(3) of the IRC.

Restricted Asset Spending Policy. The University's policy is that restrictions on assets cannot be fulfilled by the expenditure of unrestricted funds for similar purposes. The determination on whether restricted or unrestricted funds are expended for a particular purpose is made on a case-by-case basis. Restricted funds remain restricted until spent for the intended purpose.

Operating Activities. The University defines operating activities, as reported in the Statement of Revenues, Expenses and Changes in Net Position, as those that generally result from exchange transactions, such as payments received for providing goods and services and payments made for goods and services received. Nearly all of the University's expenses are from exchange transactions. Certain significant revenues relied upon for operations, such as state appropriations, gifts and investment income, are recorded as nonoperating revenues in accordance with GASB Statement No. 35.

The University has classified operating expenses based upon their functional classifications. Operating expenses by natural classification are presented in note 22. During fiscal years 2021 and 2020, departmental research in non-sponsored accounts of approximately \$90.0 million and \$91.4 million, respectively, was recorded as research expense in the Statements of Revenues, Expenses and Changes in Net Position.

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The accompanying financial statements include estimates for items such as bad debt and contractual allowances, estimated third-party payer settlements, self-insurance reserves, accrued expenses and other liability accounts.

The University has elected to self-insure certain costs related to medical malpractice, health insurance, workers' compensation and unemployment claims. See note 19.

University of Kentucky Other Postemployment Benefit (OPEB) Plan. The University has a single-employer defined OPEB benefit, Health Insurance Benefits for Retirees plan and Long-Term Disability plan (LTD). For purposes of measuring the net OPEB liability, deferred outflows of resources related to OPEB, deferred inflows of resources related to OPEB, and OPEB expenses, information about the fiduciary net position have been determined on the same basis as they are reported by the OPEB plan. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Adoption of GASB Statements No. 84 and No. 97. In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, which provides guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and requires the University to include fiduciary fund financial statements for material fiduciary activities. In June 2020, GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, which provides guidance to increase consistency, comparability and reduce costs related to the reporting of certain fiduciary component units. GASB Statements No. 84 and 97 were adopted during fiscal

year 2021, resulting in \$7.6 million recorded as both investments and liabilities for the University's 415(m) matching plan assets. There was no impact to net position as of June 30, 2020. The University has an oversight committee who holds the responsibility of governance and administration and the 415(m) matching plan is considered a part of the primary government. See note 8 for information on long-term liabilities.

Recent Accounting Pronouncements. The GASB has issued the following statements applicable to the University, which have not yet been implemented.

- GASB Statement No. 87, *Leases*, issued June 2017. The provisions of the statement were effective for fiscal years beginning after December 15, 2019 (fiscal year 2021). Due to the COVID-19 pandemic, GASB issued Statement No. 95 extending the provisions of this statement by 18 months to fiscal year 2022. This statement requires certain lease assets and liabilities for leases that were previously classified as operating leases to be recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The statement establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The University has yet to determine the impact GASB Statement No. 87 will have on its financial statements.
- GASB Statement No. 89, *Accounting for Interest Cost Incurred before the end of a Construction Period*, issued June 2018. The provisions of the statement were effective for fiscal years beginning after December 15, 2019 (fiscal year 2021). Due to the COVID-19 pandemic, GASB issued Statement No. 95 extending the provisions of this statement by one year to fiscal year 2022. This statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a BTA or enterprise fund. The University has yet to determine the impact Statement No. 89 will have on its financial statements.
- GASB Statement No. 91, *Conduit Debt Obligations*, issued May 2019. The provisions of this statement are effective for fiscal years beginning after December 15, 2021 (fiscal year 2023). This statement provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The University has determined GASB Statement No. 91 will have no material impact on its financial statements.
- GASB Statement No. 93, *Replacement of Interbank Offered Rates*, issued March, 2020. The provisions of this statement are effective for the fiscal year beginning after June 15, 2020 (fiscal year 2022). This statement establishes accounting requirements to address those and other accounting and financial reporting implications that result from the replacement of an interbank offered rate (IBOR). (The statement provides an exception to the lease modifications guidance in GASB Statement No. 87, as amended, for certain lease contracts that are amended solely to replace an IBOR as the rate upon which variable payments depend.) The University has determined that GASB Statement No. 93 will have no material impact on its financial statement.

Revisions and reclassifications. Certain revisions and reclassifications to fiscal year 2020 comparative amounts have been made to conform with the fiscal year 2021 financial statement classifications. The statement of cash flows line items for grants and contracts, COVID-19 funding and notes, loans and accounts receivable were revised by \$9.1 million. Certain amounts within footnote 24 were reclassified to show the COVID-19 funding recognized. Such revisions and reclassifications had no effect on the change in net position.

2. DEPOSITS AND INVESTMENTS

The University's deposits and investments can be grouped into five significant categories as follows:

- Overnight investments include money market funds, certificates of deposit, and deposits with local banks and the Commonwealth.
- Bond revenue fund and bond project fund investments held by the Treasurer of the Commonwealth as required by the University's bond trust indentures and invested in high quality global fixed income funds managed by the Commonwealth.
- Short-term and intermediate-term investments:
 - managed by the University, including individual securities purchased and held by the University and
 - managed by external managers in low duration strategies.
- Debt service reserve fund investments required by the University's bond trust indentures and held by the bond trustees.
- Endowment investments:
 - administered by the University and managed using external investment managers and
 - held in external trusts administered by external trustees.

Deposit and Investment Policies. The Board is responsible for establishing deposit and investment policies. The policies are developed to ensure compliance with state laws and regulations and to maintain sound financial management practices. The day-to-day management of the deposits and investments has been delegated to the Treasurer of the University.

The Treasurer of the University manages overnight, short-term and intermediate-term investments based on the Operating Fund Investment Policy. The University's policy for the investment of bond revenue and debt service reserve funds is governed by each respective bond's trust indenture. The Investment Committee of the Board establishes and maintains the University's Endowment Investment Policy.

The fair value of deposits and investments by Statement of Net Position classification at June 30, 2021 and 2020 are as follows (in thousands):

	2021	2020
<u>Statement of Net Position classification</u>		
Deposits		
Current cash and cash equivalents	\$ 1,078,955	\$ 1,024,241
Restricted cash and cash equivalents	223,765	207,044
Total deposits	1,302,720	1,231,285
Investments		
Current investments	49,223	16,119
Endowment investments	1,863,781	1,365,422
Other long-term investments	493,322	311,467
Total investments	2,406,326	1,693,008
Total deposits and investments	\$ 3,709,046	\$ 2,924,293

Fair Value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at a measurement date. The framework for measuring fair value established by Generally Accepted Accounting Principles provides a fair value hierarchy as follows:

- Level 1 Quoted prices in active markets for identical assets or liabilities.
- Level 2 Observable inputs other than level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities.

The University categorizes its fair value measurements within the fair value hierarchy. Certain investments are measured at fair value using net asset value (NAV) per share (or its equivalent) practical expedient, amortized costs, or historical costs and therefore have not been classified in the fair value hierarchy. These investments have been included in the following table to permit reconciliation of the fair value hierarchy to the amounts presented in the Statements of Net Position.

The University has the following valuation measurements, by type, at June 30, 2021 (in thousands):

	Fair Value Measurement Using						Amortized or historical cost
	Total value	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total measured at fair value	Net asset value (NAV)	
<u>Non-endowed deposits and investments</u>							
Cash and cash equivalents	\$ 319,510	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 319,510
Cash surrender value of life insurance policies	8,091	—	—	—	—	—	8,091
Certificates of deposit	22,227	—	21,739	—	21,739	—	488
Diversifying strategies ^{1,3}	6	—	—	—	—	6	—
Deposits with the Commonwealth of Kentucky ²	14,488	—	—	—	—	—	14,488
Global equity - international	12,387	12,383	—	—	12,383	4	—
Global equity - private ³	497	—	—	—	—	8	489
Global equity - U.S.	33,775	33,764	—	—	33,764	7	4
Global fixed income - high quality/rate sensitive ⁴	1,408,952	9,339	634,688	—	644,027	46,073	718,852
Global fixed income - private credit ³	1	—	—	—	—	1	—
Global fixed income - public credit	11,925	2,688	9,237	—	11,925	—	—
Guaranteed investment contracts	11,882	—	—	—	—	—	11,882
Other	3	—	—	—	—	—	3
Real assets - private ³	4	—	—	1	1	3	—
Real assets - public	1,517	1,516	—	—	1,516	1	—
Total non-endowed deposits and investments	1,845,265	59,690	665,664	1	725,355	46,103	1,073,807
<u>Endowed deposits and investments</u>							
Cash and cash equivalents	24,491	—	—	—	—	—	24,491
Diversifying strategies ^{1,3}	299,134	—	—	—	—	299,134	—
External trusts	16,508	—	—	16,508	16,508	—	—
Global equity - international	311,252	117,764	306	23	118,093	193,159	—
Global equity - private ³	396,995	—	—	—	—	396,995	—
Global equity - U.S.	328,862	12,023	1,237	—	13,260	315,602	—
Global fixed income - high quality/rate sensitive	105,406	31,930	73,476	—	105,406	—	—
Global fixed income - private credit ³	45,761	—	—	—	—	45,761	—
Global fixed income - public credit	74,263	73,879	384	—	74,263	—	—
Other	1	—	1	—	1	—	—
Real assets - private ³	169,446	—	—	27,653	27,653	141,793	—
Real assets - public	91,662	64,582	134	—	64,716	26,946	—
Total endowed deposits and investments	1,863,781	300,178	75,538	44,184	419,900	1,419,390	24,491
Total deposits and investments	\$ 3,709,046	\$ 359,868	\$ 741,202	\$ 44,185	\$ 1,145,255	\$ 1,465,493	\$ 1,098,298

- 1) Diversifying strategies include investments in various diversified, unconstrained strategies including hedge funds and global tactical asset allocation strategies.
- 2) Non-endowed deposits with the Commonwealth include deposits held by the state for capital construction, tobacco research and state appropriations. The University does not earn investment income on these funds; all investment income accrues to the Commonwealth.
- 3) Diversifying strategies, global equity - private, global fixed income - private credit and real assets - private include alternative investments whose fair market value is measured using its net asset value as of March 31, 2021 of \$22.9 million, \$15.1 million, \$553 thousand and \$4.8 million, respectively. Global fixed income - private credit alternative investments whose fair market value is measured using its net asset value as of May 31, 2021 of \$5.0 million.
- 4) Non-endowed global fixed income - high quality/rate sensitive includes deposits and investments in the Commonwealth's limited pool and intermediate pool funds. As of June 30, 2021, \$718.9 million was held in the Commonwealth's limited-term investment pool and \$299.7 million was held in the intermediate-term pool. The limited-term pool fund's fair value is measured at amortized cost and the intermediate-term pool fund's fair value is measured using level 2 observable inputs. Both investment pools provide same day liquidity with no limitations, fees or restrictions on withdrawals.

The University has the following valuation measurements, by type, at June 30, 2020 (in thousands):

	Total value	Fair Value Measurement Using			Total measured at fair value	Net asset value (NAV)	Amortized or historical cost
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)			
<u>Non-endowed deposits and investments</u>							
Cash and cash equivalents	\$ 321,517	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 321,517
Cash surrender value of life insurance policies	7,576	—	—	—	—	—	7,576
Certificates of deposit	28,467	—	28,467	—	28,467	—	—
Diversifying strategies ¹	4	—	—	—	—	4	—
Deposits with the Commonwealth of Kentucky ²	16,252	—	—	—	—	—	16,252
Global equity - hedged	2	—	—	—	—	2	—
Global equity - international	8,565	8,562	—	—	8,562	3	—
Global equity - private ³	285	—	—	—	—	6	279
Global equity - U.S.	24,335	24,327	—	—	24,327	4	4
Global fixed income - high quality/rate sensitive ⁴	1,127,006	6,848	420,673	—	427,521	22,154	677,331
Global fixed income - private credit ³	1	—	—	—	—	1	—
Global fixed income - public credit	10,319	2,183	8,135	—	10,318	1	—
Guaranteed investment contracts	12,001	—	—	—	—	—	12,001
Other	3	—	—	—	—	—	3
Real assets - private	4	—	—	1	1	3	—
Real assets - public	2,534	2,534	—	—	2,534	—	—
Total non-endowed deposits and investments	1,558,871	44,454	457,275	1	501,730	22,178	1,034,963
<u>Endowed deposits and investments</u>							
Cash and cash equivalents	4,020	—	—	—	—	—	4,020
Diversifying strategies ¹	188,279	—	—	—	—	188,279	—
External trusts	13,282	—	—	13,282	13,282	—	—
Global equity - hedged	79,840	—	—	—	—	79,840	—
Global equity - international	199,831	76,232	268	13	76,513	123,318	—
Global equity - private ³	265,249	—	—	—	—	265,249	—
Global equity - U.S.	208,594	9,537	1,146	—	10,683	197,911	—
Global fixed income - high quality/rate sensitive	80,959	22,138	58,821	—	80,959	—	—
Global fixed income - private credit ⁴	38,073	—	—	—	—	38,073	—
Global fixed income - public credit	70,490	37,925	559	—	38,484	32,006	—
Other	1	—	1	—	1	—	—
Real assets - private	140,690	—	—	24,448	24,448	116,242	—
Real assets - public	76,114	56,897	116	—	57,013	19,101	—
Total endowed deposits and investments	1,365,422	202,729	60,911	37,743	301,383	1,060,019	4,020
Total deposits and investments	\$ 2,924,293	\$ 247,183	\$ 518,186	\$ 37,744	\$ 803,113	\$ 1,082,197	\$ 1,038,983

- 1) Diversifying strategies include investments in various diversified, unconstrained strategies including hedge funds and global tactical asset allocation strategies.
- 2) Non-endowed deposits with the Commonwealth include deposits held by the state for capital construction, tobacco research and state appropriations. The University does not earn investment income on these funds; all investment income accrues to the Commonwealth.
- 3) Global equity - private and global fixed income - private credit include alternative investments whose fair market value is measured using its net asset value as of March 31, 2020 of \$13.3 million and \$451 thousand, respectively.
- 4) Non-endowed global fixed income - high quality/rate sensitive includes deposits and investments in the Commonwealth's limited pool and intermediate pool funds. As of June 30, 2020, \$677.3 million was held in the Commonwealth's limited-term investment pool and \$226.8 million was held in the intermediate-term pool. The limited-term pool fund's fair value is measured at amortized cost and the intermediate-term pool fund's fair value is measured using level 2 observable inputs. Both investment pools provide same day liquidity with no limitations, fees or restrictions on withdrawals.

Where quoted market prices are available in an active market, securities are classified within level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the

inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in level 2 of the valuation hierarchy. In certain cases, where level 1 or level 2 inputs are not available, securities are classified within level 3 of the hierarchy.

Level 3 valuation for global equity investments are valued using either discounted cash flow or market comparable companies technique. External trusts are based on level 3 valuations provided by the external trustee.

Investments valued using NAV per share (or its equivalent) as of June 30, 2021 and 2020 are as follows (in thousands):

	2021							Unfunded commitments
	Net asset value (NAV)	Redemption Frequency/Notice Period						
		Daily, weekly/ 1 - 7 days	Semi-monthly, monthly/ 15 - 75 days	Quarterly/ 60 - 90 days	Semi-annually/ 60 - 180 days	Annually/ 90 - 180 days	End of term/ 5 to 10 years	
Diversifying strategies	\$ 299,140	\$ —	\$ 38,639	\$ 137,340	\$ 45,721	\$ 34,338	\$ 43,102	\$ 7,829
Global equity - international	193,163	95,289	67,156	20,616	—	10,102	—	—
Global equity - private	397,003	—	—	—	—	—	397,003	183,545
Global equity - U.S.	315,609	262,669	52,940	—	—	—	—	—
Global fixed income - high quality/rate sensitive	46,073	46,073	—	—	—	—	—	—
Global fixed income - private credit	45,762	—	—	—	—	—	45,762	21,673
Real assets - private	141,796	—	—	—	—	—	141,796	47,521
Real assets - public	26,947	—	26,947	—	—	—	—	—
Total measured at net asset value	<u>\$ 1,465,493</u>	<u>\$ 404,031</u>	<u>\$ 185,682</u>	<u>\$ 157,956</u>	<u>\$ 45,721</u>	<u>\$ 44,440</u>	<u>\$ 627,663</u>	<u>\$ 260,568</u>

	2020							Unfunded commitments
	Net asset value (NAV)	Redemption Frequency/Notice Period						
		Daily, weekly/ 1 - 7 days	Semi-monthly, monthly/ 15 - 75 days	Quarterly/ 60 - 90 days	Semi-annually/ 60 - 180 days	Annually/ 90 - 180 days	End of term/ 5 to 10 years	
Diversifying strategies	\$ 188,283	\$ —	\$ 32,672	\$ 81,403	\$ 21,687	\$ 28,409	\$ 24,112	\$ 19,351
Global equity - hedged	79,842	—	—	34,653	17,167	28,022	—	—
Global equity - international	123,321	73,421	24,586	19,944	—	5,370	—	—
Global equity - private	265,255	—	—	—	—	—	265,255	106,532
Global equity - U.S.	197,915	166,959	30,956	—	—	—	—	—
Global fixed income - high quality/rate sensitive	22,154	22,154	—	—	—	—	—	—
Global fixed income - private credit	38,074	—	—	—	—	—	38,074	36,626
Global fixed income - public credit	32,007	—	—	—	—	32,007	—	—
Real assets - private	116,245	—	—	—	—	—	116,245	57,406
Real assets - public	19,101	—	19,101	—	—	—	—	—
Total measured at net asset value	<u>\$ 1,082,197</u>	<u>\$ 262,534</u>	<u>\$ 107,315</u>	<u>\$ 136,000</u>	<u>\$ 38,854</u>	<u>\$ 93,808</u>	<u>\$ 443,686</u>	<u>\$ 219,915</u>

Deposit and Investment Risks. The University's deposits and investments are exposed to various risks, including credit, interest rate and foreign currency risk, as discussed in more detail below. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could affect the investment amounts in the Statements of Net Position.

Credit Risk. Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligation, causing the University to experience a loss of principal.

As a means of limiting its exposure to losses arising from credit risk, the University's investment policies limit the exposure of its various investment types as follows:

- Overnight investments (deposits and money market funds) policies minimize credit risk in several ways. The University deposits, in Federal Deposit Insurance Corporation (FDIC) insured financial institutions, are covered up to \$250 thousand at each FDIC insured institution. State law requires that deposits in excess of this coverage be fully collateralized, therefore depository institutions issue a pledge of specific U.S. Treasury or agency securities, held in the name of the University by the Federal Reserve Bank, to cover all amounts over the \$250 thousand coverage. The University invests a portion of its operating cash in a diversified pool of money market funds. Fund investments include U.S. Treasury and agency securities, certificates of deposit, commercial paper, repurchase agreements and other short-term fixed income securities. KMSF's financial institution maintains a letter of credit for amounts on deposit over and above FDIC insured balances through the Federal Home Loan Bank of Cincinnati.
- Bond revenue fund and bond project fund investments held in the Commonwealth's investment pools can invest in U.S. Treasury and agency securities; commercial paper, asset-backed securities or qualified mutual funds rated in the highest category by a nationally recognized statistical rating organization; certificates of deposit, bankers acceptances, state or local government securities and corporate, Yankee and Eurodollar securities rated in one of the three highest categories by a nationally recognized statistical rating organization; and state and local property tax certificates of delinquency secured by interests in real property.
- Short-term and intermediate-term investments managed by the University and those held in the Commonwealth's investment pools are subject to the same credit quality restrictions as denoted above for bond revenue fund investments. The low duration strategies managed by external managers must adhere to certain investment guidelines. For one of the portfolios, the investment guidelines require that a minimum of 85% of the portfolio holdings are investment grade and a minimum A- portfolio average quality is maintained, with no single credit industry exceeding 15% of the portfolio. For the other portfolio, the investment guidelines require a minimum issue quality of B and a minimum commercial paper quality of A3/P3. Issuer quality below BBB is limited to 10% and a minimum A- portfolio average quality is maintained. The low duration strategies have been classified as global fixed income - high quality/rate sensitive in the footnote 2 tables.
- Investment securities held in debt service reserve funds may be invested and reinvested solely in bonds or interest-bearing notes of the United States government.
- Endowment managers are permitted to use derivative instruments to limit credit risk.

At June 30, 2021 and 2020, the credit quality of the University's fixed income investments is summarized below (in thousands):

	2021							Total
	S&P/Moody's Credit Ratings							
	AAA/Aaa	AA/Aa	A	BBB/Baa	Below BBB/Baa	Not rated	Rating not applicable	
<u>Non-endowed deposits and investments</u>								
Cash and cash equivalents	\$ 1	\$ —	\$ —	\$ —	\$ —	\$ 319,509	\$ —	\$ 319,510
Certificates of deposit	—	—	—	—	—	22,227	—	22,227
Global fixed income - high quality/rate sensitive	111,034	84,430	83,230	65,361	6,018	1,027,870	31,009	1,408,952
Global fixed income - private credit	—	—	—	—	—	1	—	1
Global fixed income - public credit	—	1,093	5,362	2,782	—	2,688	—	11,925
Guaranteed investment contracts	—	1,062	—	—	—	10,820	—	11,882
Total non-endowed fixed income investments	<u>111,035</u>	<u>86,585</u>	<u>88,592</u>	<u>68,143</u>	<u>6,018</u>	<u>1,383,115</u>	<u>31,009</u>	<u>1,774,497</u>
<u>Endowed deposits and investments</u>								
Cash and cash equivalents	—	—	—	—	—	24,491	—	24,491
Global fixed income - high quality/rate sensitive	5,314	2,565	5,285	15,876	784	38,058	37,524	105,406
Global fixed income - private credit	—	—	—	—	—	45,761	—	45,761
Global fixed income - public credit	152	85	326	469	768	72,074	389	74,263
Total endowed fixed income investments	<u>5,466</u>	<u>2,650</u>	<u>5,611</u>	<u>16,345</u>	<u>1,552</u>	<u>180,384</u>	<u>37,913</u>	<u>249,921</u>
Total fixed income investments	<u>\$ 116,501</u>	<u>\$ 89,235</u>	<u>\$ 94,203</u>	<u>\$ 84,488</u>	<u>\$ 7,570</u>	<u>\$ 1,563,499</u>	<u>\$ 68,922</u>	<u>\$ 2,024,418</u>

	2020							Total
	S&P/Moody's Credit Ratings							
	AAA/Aaa	AA/Aa	A	BBB/Baa	Below BBB/Baa	Not rated	Rating not applicable	
<u>Non-endowed deposits and investments</u>								
Cash and cash equivalents	\$ 187,178	\$ —	\$ —	\$ —	\$ —	\$ 134,339	\$ —	\$ 321,517
Certificates of deposit	—	—	—	—	—	28,467	—	28,467
Global fixed income - high quality/rate sensitive	45,732	41,214	72,145	53,700	1,590	910,944	1,681	1,127,006
Global fixed income - private credit	—	—	—	—	—	1	—	1
Global fixed income - public credit	—	1,076	5,046	2,012	1	2,184	—	10,319
Guaranteed investment contracts	—	2,489	—	—	—	9,512	—	12,001
Total non-endowed fixed income investments	<u>232,910</u>	<u>44,779</u>	<u>77,191</u>	<u>55,712</u>	<u>1,591</u>	<u>1,085,447</u>	<u>1,681</u>	<u>1,499,311</u>
<u>Endowed deposits and investments</u>								
Cash and cash equivalents	—	—	—	—	—	4,020	—	4,020
Global fixed income - high quality/rate sensitive	3,047	2,098	9,184	18,344	2,967	3,599	41,720	80,959
Global fixed income - private credit	—	—	—	—	—	38,073	—	38,073
Global fixed income - public credit	283	92	380	510	895	67,574	756	70,490
Total endowed fixed income investments	<u>3,330</u>	<u>2,190</u>	<u>9,564</u>	<u>18,854</u>	<u>3,862</u>	<u>113,266</u>	<u>42,476</u>	<u>193,542</u>
Total fixed income investments	<u>\$ 236,240</u>	<u>\$ 46,969</u>	<u>\$ 86,755</u>	<u>\$ 74,566</u>	<u>\$ 5,453</u>	<u>\$ 1,198,713</u>	<u>\$ 44,157</u>	<u>\$ 1,692,853</u>

Custodial Credit Risk. Custodial credit risk is the risk that, in the event of the failure of the counterparty, the University will not be able to recover the value of its investment or collateral securities that are in possession of an outside party. As a means of limiting its exposure to losses arising from custodial credit risk, the University's investment policies limit the exposure of its various investment types as follows:

- Overnight investments (deposits and money market funds) are not exposed to custodial credit risk. Deposits and money market funds are held in the University's name by various financial institutions.
- Bond revenue fund and bond project fund investments held in the Commonwealth's investment pools are held in the Commonwealth's name by the Commonwealth's custodian.
- Short-term and intermediate-term investments held by the Commonwealth for the benefit of the University are invested in the Commonwealth's investment pools and are held in the name of the Commonwealth by the Commonwealth's custodian. Short-term and intermediate-term investments managed by the University are held in the University's name in a safekeeping account. The low duration strategy investments managed by external managers are held in the University's name by the University's custodian.
- Investment securities held in debt service reserve funds are held by the respective bond trustee in a specific trust account for the benefit of the University and its bondholders.
- Endowment investments in external trusts are held in the name of the trust. Other endowment investments are held in the University's name by the University's custodian.

Non-endowed global fixed income - high quality/rate sensitive investments whose fair market value was \$1.02 billion and \$904.1 million, as of June 30, 2021 and 2020, respectively, were exposed to custodial credit risk. These bond revenue fund investments were held by the Commonwealth, uninsured and not registered in the name of the University.

Concentrations of Credit Risk. University investments can be exposed to a concentration of credit risk if significant amounts are invested in any one issuer.

As a means of limiting its exposure to concentrations of credit risk, the University's investment policies limit concentrations in various investment types as follows:

- Overnight investments (deposits and money market funds) are not limited to a maximum amount that may be invested in one issuer. However, the University's cash deposits in excess of federal deposit insurance are required to be fully collateralized by U.S. Treasury and/or agency securities or other similar investments as provided by KRS 41.240.
- Bond revenue fund and bond project fund investments held in the Commonwealth's investment pools are limited as follows: U.S. dollar denominated corporate and Yankee securities issued by foreign and domestic issuers shall not exceed 35% of an individual pool and \$25.0 million per issuer, inclusive of commercial paper, bankers acceptances and certificates of deposit per individual pool; and U.S. dollar denominated sovereign debt shall not exceed five percent of any individual portfolio and \$25.0 million per issuer.
- Short-term and intermediate-term investments managed by the University and those held in the Commonwealth's investment pools are subject to the same credit concentration restrictions as denoted above for the bond revenue fund investments. Investments in the low duration strategies managed by external managers are also subject to certain credit concentration restrictions. For one portfolio, no single credit industry shall exceed 15% of the portfolio at purchase. Additionally, no single issuer, with the exception of government and agency issuers, shall exceed three percent of the portfolio at purchase and high yield issuers may not exceed one percent of the portfolio at purchase. For the other portfolio, concentrations are limited to the following:
 - issue or issuer at five percent excluding sovereign debt of Organization for Economic Cooperation and Development governments and U.S. agencies. Specific mortgage pools and trusts are considered separate issuers, and each tranche within a collateralized mortgage obligation is considered a separate issue;
 - issuer quality below BBB at 10%;

- non-U.S. dollar denominated at 30% excluding money market securities and money market futures;
- emerging markets at five percent; and
- foreign currency exposure at five percent.
- There is no specific limit on the maximum amount of investment securities held in debt service reserve funds that may be invested in one issuer. However, such investments are limited to bonds or interest bearing notes of the U.S. government.
- The University's endowment fixed income managers are limited to a maximum investment in any one issuer of no more than five percent of total investments excluding sovereign debt of governments belonging in the Organization for Economic Co-operation and Development governments and U.S. agencies.

At June 30, 2021 and 2020, the University had no investments in any one issuer that represented five percent or more of total investments, other than U.S. Treasury and/or U.S. agency securities.

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

As a means of limiting its exposure to fair value losses arising from increasing interest rates, the University's investment policies limit the maturity of its various investment types as follows:

- Overnight investments (deposits and money market funds) have limited exposure to interest rate risk due to the short-term nature of the investment. The University requires that all deposits and money market funds be available for use on the next business day.
- Bond revenue fund and bond project fund investments held in the Commonwealth's limited-term investment pool are limited to a weighted average maturity that does not exceed 60 days, adjusted for interest rate resets and demand features. Investments in the Commonwealth's intermediate-term investment pool must maintain an effective duration of less than three years.
- Short/intermediate-term investments managed by the University are limited to a maximum duration of five years, intermediate/long-term investments managed by the University are limited to a maximum duration of 10 years, and those held in the Commonwealth's investment pools are subject to the same maturity and duration limits as denoted above for bond revenue fund investments. The portfolio duration of one of the low duration strategy investments managed by an external manager must be within a range of +/- 0.5 years of the Barclays Capital U.S. Government/Credit 1-5 Year Bond Index while the other portfolio is limited to a maximum duration of one year.
- Investment securities held in debt service reserve funds are required to have a maturity no later than two years from the date of the investment.
- Endowment managers are permitted to use derivative instruments to limit interest rate risk. Additionally, endowment investments held by the University's actively managed intermediate-term fixed income manager are limited to a duration that is within two years of the duration of the Barclays Capital U.S. Intermediate Aggregate Bond Index and unconstrained fixed income strategies have been implemented to further mitigate interest rate risk.

For June 30, 2021 and 2020, the maturity distribution of the University's fixed income investments are summarized below (in thousands):

	2021						Total
	Maturities in Years						
	Less than 1	1-5	5-10	Greater than 10	Managed based on duration	Alternative strategy ¹	
<u>Non-endowed deposits and investments</u>							
Cash and cash equivalents	\$ 319,510	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 319,510
Certificates of deposit	21,739	488	—	—	—	—	22,227
Global fixed income - high quality/rate sensitive	9,734	42,677	16,163	234	1,340,144	—	1,408,952
Global fixed income - private credit ¹	—	—	—	—	—	1	1
Global fixed income - public credit ¹	793	4,957	3,487	—	2,688	—	11,925
Guaranteed investment contracts	—	11,882	—	—	—	—	11,882
Total non-endowed fixed income investments	<u>351,776</u>	<u>60,004</u>	<u>19,650</u>	<u>234</u>	<u>1,342,832</u>	<u>1</u>	<u>1,774,497</u>
<u>Endowed deposits and investments</u>							
Cash and cash equivalents	24,491	—	—	—	—	—	24,491
Global fixed income - high quality/rate sensitive	—	—	—	—	105,406	—	105,406
Global fixed income - private credit ¹	—	—	—	—	—	45,761	45,761
Global fixed income - public credit ¹	—	—	—	—	74,263	—	74,263
Total endowed fixed income investments	<u>24,491</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>179,669</u>	<u>45,761</u>	<u>249,921</u>
Total fixed income investments	<u>\$ 376,267</u>	<u>\$ 60,004</u>	<u>\$ 19,650</u>	<u>\$ 234</u>	<u>\$ 1,522,501</u>	<u>\$ 45,762</u>	<u>\$ 2,024,418</u>
	2020						Total
	Maturities in Years						
	Less than 1	1-5	5-10	Greater than 10	Managed based on duration	Alternative strategy ¹	
<u>Non-endowed deposits and investments</u>							
Cash and cash equivalents	\$ 321,517	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 321,517
Certificates of deposit	26,202	2,265	—	—	—	—	28,467
Global fixed income - high quality/rate sensitive	2,401	3,478	1,441	491	1,119,195	—	1,127,006
Global fixed income - private credit ¹	—	—	—	—	—	1	1
Global fixed income - public credit ¹	1,229	4,525	2,381	—	2,183	1	10,319
Guaranteed investment contracts	—	12,001	—	—	—	—	12,001
Total non-endowed fixed income investments	<u>351,349</u>	<u>22,269</u>	<u>3,822</u>	<u>491</u>	<u>1,121,378</u>	<u>2</u>	<u>1,499,311</u>
<u>Endowed deposits and investments</u>							
Cash and cash equivalents	4,020	—	—	—	—	—	4,020
Global fixed income - high quality/rate sensitive	—	—	—	—	80,959	—	80,959
Global fixed income - private credit ¹	—	—	—	—	—	38,073	38,073
Global fixed income - public credit ¹	—	—	—	—	38,484	32,006	70,490
Total endowed fixed income investments	<u>4,020</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>119,443</u>	<u>70,079</u>	<u>193,542</u>
Total fixed income investments	<u>\$ 355,369</u>	<u>\$ 22,269</u>	<u>\$ 3,822</u>	<u>\$ 491</u>	<u>\$ 1,240,821</u>	<u>\$ 70,081</u>	<u>\$ 1,692,853</u>

1) Global fixed income - private and public credit includes alternative investments that are not managed within traditional maturity or duration constraints.

At June 30, 2021 and 2020, the University had the following investments managed based on duration (in thousands):

	2021		2020	
	Fair Value	Modified Duration (Years)	Fair Value	Modified Duration (Years)
<u>Non-endowed deposits and investments</u>				
Global fixed income - high quality/rate sensitive				
415(m) matching plan	\$ 5,544	6.7	\$ 4,234	6.6
UKAA	700	6.7	3	4.4
Commonwealth of Kentucky intermediate pool	299,678	1.3	226,766	0.7
Commonwealth of Kentucky limited pool	718,852	0.1	677,331	0.1
Externally managed low duration strategy funds	312,830	1.2	208,731	1.4
KMSF	2,056	3.7	1,907	5.4
KTI	484	4.2	222	4.0
Global fixed income - public credit				
415(m) matching plan	—	—	195	4.2
UKAA	2	2.1	1	2.3
KMSF	2,502	4.3	1,815	5.6
KTI	184	4.8	173	6.0
Total non-endowment investment	<u>1,342,832</u>		<u>1,121,378</u>	
<u>Endowed deposits and investments</u>				
Global fixed income - high quality/rate sensitive	105,406	3.1	80,959	4.4
Global fixed income - public credit	74,263	2.2	38,484	2.6
Total endowment investment	<u>179,669</u>		<u>119,443</u>	
Total managed based on duration	<u>\$ 1,522,501</u>		<u>\$ 1,240,821</u>	

Foreign Currency Risk. Foreign currency risk is the risk that fluctuations in exchange rates will adversely affect the fair value of an investment or deposit.

The University's exposure to foreign currency risk derives from certain operating and endowment investments. One of the University's low duration strategies allows for non-U.S. dollar denominated securities limited to 30% excluding money market securities and money market futures. Within the same portfolio, foreign currency exposure is limited to five percent with any currency hedging requirements met through either hedged cash bond exposure or a combination of forward and derivative positions coupled with a long currency position in the same currency. The value of these investments included in the following table was \$18.3 million and \$0 as of June 30, 2021 and 2020, respectively, and the fair market value of the hedges related to those investments was \$380 thousand and \$0 as of June 30, 2021 and 2020, respectively. The University's endowment investment policy allows fixed income managers to invest a portion of their portfolios in non-U.S. securities. Additionally, the investment policy allows various pooled fund managers to invest in accordance with the guidelines established in each individual fund's prospectus, which allows for investment in non-U.S. securities. Endowment managers are permitted to use derivative instruments to limit foreign currency risk.

As of June 30, 2021 and 2020, the following endowment and operating investments were subject to foreign currency risk (in thousands):

	Fair Value	
	2021	2020
Global equity - international	\$ 13	\$ 13
Global equity - private	2,327	2,089
Global fixed income - high quality/rate sensitive	18,304	36
Real assets - private	2,546	3,934
Total	<u>\$ 23,190</u>	<u>\$ 6,072</u>

3. NOTES, LOANS AND ACCOUNTS RECEIVABLE, NET

Notes, loans and accounts receivable as of June 30, 2021 is as follows (in thousands):

	Gross Receivable	Allowance	Net Receivable
Accrued interest receivable	\$ 1,357	\$ —	\$ 1,357
Commonwealth funded capital projects	2,421	—	2,421
Dentistry patient accounts	3,742	(690)	3,052
Hospital patient accounts (net of contractual allowances)	323,068	(60,513)	262,555
Hospital third-party payer settlements	114,626	—	114,626
KMSF patient accounts (net of contractual allowances)	49,299	(11,482)	37,817
Multimedia rights receivable	231,713	—	231,713
Pledges receivable (less discounts of \$6,158)	69,506	(25,564)	43,942
Reimbursement receivable - federal appropriations	1,423	—	1,423
Reimbursement receivable - grants and contracts	44,085	(429)	43,656
Service concession arrangements	55,855	—	55,855
Student accounts	33,902	(16,620)	17,282
Student loans	21,669	(2,171)	19,498
Other	36,584	(8)	36,576
Total	<u>\$ 989,250</u>	<u>\$ (117,477)</u>	<u>\$ 871,773</u>
Current portion			\$ 563,345
Noncurrent portion			<u>308,428</u>
Total			<u>\$ 871,773</u>

Notes, loans and accounts receivable as of June 30, 2020 is as follows (in thousands):

	Gross Receivable	Allowance	Net Receivable
Accrued interest receivable	\$ 1,069	\$ —	\$ 1,069
Commonwealth funded capital projects	12,304	—	12,304
Dentistry patient accounts	3,969	(534)	3,435
Hospital patient accounts (net of contractual allowances)	266,346	(66,068)	200,278
Hospital third-party payer settlements	15,896	—	15,896
KMSF patient accounts (net of contractual allowances)	46,088	(9,901)	36,187
Multimedia rights receivable	254,750	—	254,750
Pledges receivable (less discounts of \$7,836)	89,951	(31,107)	58,844
Reimbursement receivable - federal appropriations	1,376	—	1,376
Reimbursement receivable - grants and contracts	34,326	(175)	34,151
Service concession arrangements	74,904	—	74,904
Student accounts	31,452	(14,743)	16,709
Student loans	23,178	(2,719)	20,459
Other	51,139	(13)	51,126
Total	<u>\$ 906,748</u>	<u>\$ (125,260)</u>	<u>\$ 781,488</u>
Current portion			\$ 430,761
Noncurrent portion			<u>350,727</u>
Total			<u>\$ 781,488</u>

In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, the University is required to record operating and capital pledges as revenue when all eligibility requirements have been met. Endowment pledges are not recognized as revenue until the gifts are actually received. For the years ended June 30, 2021 and 2020, the University recorded the discounted value of operating and capital pledges using a rate of two percent.

Deferred gifts through insurance, known bequests and irrevocable trusts in which the University has a remainder interest is estimated to be approximately \$344.6 million and \$317.6 million at June 30, 2021 and 2020, respectively. The University records these amounts as revenue when the cash is received.

4. CAPITAL ASSETS, NET

Capital assets as of June 30, 2021 and capital asset activity for the year ended June 30, 2021 are summarized below (in thousands):

	June 30, 2020	Additions	Deletions	June 30, 2021
Land	\$ 91,328	\$ 2,008	\$ 24	\$ 93,312
Land improvements - nonexhaustible	88,571	2,748	—	91,319
Land improvements - exhaustible	151,885	1,923	—	153,808
Buildings	3,960,936	125,649	24,935	4,061,650
Fixed equipment - communications	165,915	12,664	113	178,466
Infrastructure	132,011	12,985	—	144,996
Equipment	667,803	74,784	25,126	717,461
Vehicles	24,998	2,139	1,609	25,528
Library materials	148,490	792	186	149,096
Nondepreciable library materials	7,863	80	—	7,943
Capitalized software	225,149	67,651	—	292,800
Art	14,621	1,076	—	15,697
Certificate of need	11,609	—	—	11,609
Intangible assets	100	—	—	100
Construction in progress	166,140	89,099	121,658	133,581
Total	<u>5,857,419</u>	<u>393,598</u>	<u>173,651</u>	<u>6,077,366</u>
<u>Accumulated Depreciation</u>				
Land improvements - exhaustible	89,673	9,691	—	99,364
Buildings	1,285,790	106,433	24,431	1,367,792
Fixed equipment - communications	108,595	10,771	113	119,253
Infrastructure	58,941	5,269	—	64,210
Equipment	458,898	58,078	23,283	493,693
Vehicles	19,989	1,807	1,335	20,461
Library materials	145,243	1,071	—	146,314
Capitalized software	152,603	12,823	—	165,426
Intangible assets	40	20	—	60
Total	<u>2,319,772</u>	<u>205,963</u>	<u>49,162</u>	<u>2,476,573</u>
Capital assets, net	<u>\$ 3,537,647</u>	<u>\$ 187,635</u>	<u>\$ 124,489</u>	<u>\$ 3,600,793</u>

Capital assets as of June 30, 2020 and capital asset activity for the year ended June 30, 2020 are summarized below (in thousands):

	June 30, 2019	Additions	Deletions	June 30, 2020
Land	\$ 91,328	\$ —	\$ —	\$ 91,328
Land improvements - nonexhaustible	83,927	4,644	—	88,571
Land improvements - exhaustible	146,202	5,683	—	151,885
Buildings	3,813,780	148,104	948	3,960,936
Fixed equipment - communications	155,325	10,590	—	165,915
Infrastructure	131,761	250	—	132,011
Equipment	643,546	55,731	31,474	667,803
Vehicles	23,500	2,415	917	24,998
Library materials	147,734	1,071	315	148,490
Nondepreciable library materials	6,753	1,110	—	7,863
Capitalized software	196,436	28,713	—	225,149
Art	14,361	260	—	14,621
Certificate of need	11,609	—	—	11,609
Intangible Assets	100	—	—	100
Construction in progress	127,632	144,722	106,214	166,140
Total	<u>5,593,994</u>	<u>403,293</u>	<u>139,868</u>	<u>5,857,419</u>
<u>Accumulated Depreciation</u>				
Land improvements - exhaustible	80,070	9,603	—	89,673
Buildings	1,185,325	101,199	734	1,285,790
Fixed equipment - communications	98,512	10,083	—	108,595
Infrastructure	53,937	5,004	—	58,941
Equipment	428,439	52,347	21,888	458,898
Vehicles	18,958	1,895	864	19,989
Library materials	144,323	920	—	145,243
Capitalized software	140,638	11,965	—	152,603
Intangible Assets	20	20	—	40
Total	<u>2,150,222</u>	<u>193,036</u>	<u>23,486</u>	<u>2,319,772</u>
Capital assets, net	<u>\$ 3,443,772</u>	<u>\$ 210,257</u>	<u>\$ 116,382</u>	<u>\$ 3,537,647</u>

At June 30, 2021, the University had commitments for capital projects currently underway in which the total budgeted costs were \$376.4 million. Of this amount, \$242.4 million remain to be incurred. Such construction was principally financed by cash reserves, gifts and grants, and proceeds from the University's general receipts bonds.

Interest costs incurred during construction, net of related investment income, are capitalized. Total interest capitalized was \$4.4 million for fiscal year 2021 and \$4.0 million for fiscal year 2020.

During fiscal years 2021 and 2020, the University utilized capital leases to acquire various items of equipment. As of June 30, 2021 and 2020, the net book value of land, buildings, equipment and software acquired through capital leases included in the above schedules totaled \$97.6 million and \$102.1 million, respectively.

On January 3, 2019, the University finalized Phase I of the land swap transaction with the Lexington Fayette Urban County Government. In this phase, the University took ownership of certain campus streets at a value

of \$9.2 million in exchange for 50 acres of the Coldstream Research Campus property, which had a historical booked value of \$58 thousand, for a gain of approximately \$9.1 million. Phase II is expected to be finalized in fiscal year 2022. In Phase II, the University will take ownership of additional campus streets at a value of \$12.0 million in exchange for 199 acres of the Coldstream property, which has a historical booked value of \$232 thousand, for a future gain of approximately \$11.8 million.

5. DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows of resources as of June 30, 2021 and 2020 are as follows (in thousands):

	<u>2021</u>	<u>2020</u>
OPEB long-term disability	\$ 4,016	\$ 3,412
OPEB retiree health	32,814	24,050
Refunding bonds	<u>4,778</u>	<u>6,131</u>
Total	<u>\$ 41,608</u>	<u>\$ 33,593</u>

Deferred outflows of resources from OPEB are more fully described within footnote 17 and 18.

Deferred outflows of resources from refunding bonds represents the difference between the reacquisition price and net carrying amount of refunded debt; the reacquisition price being the amount sent to the escrow agent. This consists of refunding bonds issued between 2014 and 2019. Amortization of the deferred outflows of resources from these refunding bonds was \$1.4 million for fiscal year 2021 and \$1.5 million for fiscal year 2020.

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of June 30, 2021 and 2020 are as follows (in thousands):

	<u>2021</u>	<u>2020</u>
Payable to vendors and contractors	\$ 198,503	\$ 164,976
Accrued expenses, including vacation and sick leave	129,829	103,054
Accrued interest payable	10,047	10,618
Employee withholdings and deposits payable to third parties	<u>39,653</u>	<u>24,467</u>
Total	<u>\$ 378,032</u>	<u>\$ 303,115</u>

7. UNEARNED REVENUE

Unearned revenues as of June 30, 2021 and 2020 are as follows (in thousands):

	June 30, 2020	Additions	Reductions	June 30, 2021	Current Portion	Noncurrent Portion
Unearned summer school revenue	\$ 12,204	\$ 12,170	\$ 12,207	\$ 12,167	\$ 12,167	\$ —
Unearned hospital revenue	72,078	88,783	84,435	76,426	76,426	—
Unearned grants and contracts revenue	69,110	86,764	114,206	41,668	39,215	2,453
Unearned multimedia rights revenue	245,737	—	18,639	227,098	19,138	207,960
Athletic ticket sales and contracts	11,228	24,832	23,549	12,511	12,245	266
Other	9,183	50,372	37,103	22,452	22,176	276
Total	\$ 419,540	\$ 262,921	\$ 290,139	\$ 392,322	\$ 181,367	\$ 210,955

	June 30, 2019	Additions	Reductions	June 30, 2020	Current Portion	Noncurrent Portion
Unearned summer school revenue	\$ 8,750	\$ 12,204	\$ 8,750	\$ 12,204	\$ 12,204	\$ —
Unearned hospital revenue	63,966	65,994	57,882	72,078	72,078	—
Unearned grants and contracts revenue	38,903	91,588	61,381	69,110	66,578	2,532
Unearned multimedia rights revenue	264,874	—	19,137	245,737	19,138	226,599
Athletic ticket sales and contracts	13,815	30,763	33,350	11,228	10,912	316
Other	7,685	35,135	33,637	9,183	8,831	352
Total	\$ 397,993	\$ 235,684	\$ 214,137	\$ 419,540	\$ 189,741	\$ 229,799

A multimedia rights partnership was formed in July 2014 between the University and JMI Sports providing athletics and campus multimedia marketing rights in a 15 year, \$210.0 million agreement. Under the contract, the University will receive a guaranteed rights fee in each of the 15 years of the partnership, that started at \$9.1 million in fiscal year 2015-16 and increasing to \$16.0 million in fiscal year 2029-30. The agreement also included a \$29.4 million signing bonus to be paid over the first two years of the contract. This agreement was modified in April 2016 to increase the signing bonus to \$29.9 million, which was paid over the first three years of the contract. A three year contract extension of \$51.0 million along with a modification to add Rupp Arena media rights of \$67.5 million was signed in July 2018, which increased the total amount to be received to \$329.0 million. This agreement was modified again on November 12, 2020 which extended the contract for an additional year.

8. LONG-TERM LIABILITIES

Long-term liabilities as of June 30, 2021 and long-term liability activity for the year ended June 30, 2021 are summarized below (in thousands):

	June 30, 2020	Additions	Reductions	June 30, 2021	Current Portion	Noncurrent Portion
<u>Bonds, notes and capital leases</u>						
General receipts bonds	\$ 1,068,545	\$ —	\$ 45,960	\$ 1,022,585	\$ 47,950	\$ 974,635
Capital leases and other						
long-term obligations	87,315	1,576	5,582	83,309	6,032	77,277
Notes payable	8,427	585	475	8,537	799	7,738
Total	<u>1,164,287</u>	<u>2,161</u>	<u>52,017</u>	<u>1,114,431</u>	<u>54,781</u>	<u>1,059,650</u>
<u>Notes and leases from direct borrowings and direct placements</u>						
Capital leases	34,005	—	1,015	32,990	1,050	31,940
Notes payable	17,294	—	799	16,495	823	15,672
Total	<u>51,299</u>	<u>—</u>	<u>1,814</u>	<u>49,485</u>	<u>1,873</u>	<u>47,612</u>
Total bonds, notes and capital leases	<u>1,215,586</u>	<u>2,161</u>	<u>53,831</u>	<u>1,163,916</u>	<u>56,654</u>	<u>1,107,262</u>
<u>Other liabilities</u>						
Annuities payable	2,931	313	1,098	2,146	324	1,822
Automobile and property self insurance	133	—	83	50	50	—
Compensated absences	6,024	—	603	5,421	944	4,477
Deferred employer social security taxes	—	22,433	—	22,433	—	22,433
Federal loan programs	17,183	652	2,609	15,226	—	15,226
Health insurance	11,527	66,144	62,849	14,822	14,822	—
Insurance executory costs	17,439	—	253	17,186	253	16,933
Medical malpractice	30,740	20,153	18,924	31,969	7,622	24,347
Unamortized bond premium	50,509	—	6,666	43,843	—	43,843
Unemployment compensation	588	655	696	547	547	—
Workers' compensation	20,633	—	1,720	18,913	6,011	12,902
Other	17,508	17,630	5,160	29,978	932	29,046
Total other liabilities	<u>175,215</u>	<u>127,980</u>	<u>100,661</u>	<u>202,534</u>	<u>31,505</u>	<u>171,029</u>
Total	<u>\$ 1,390,801</u>	<u>\$ 130,141</u>	<u>\$ 154,492</u>	<u>\$ 1,366,450</u>	<u>\$ 88,159</u>	<u>\$ 1,278,291</u>

Long-term liabilities as of June 30, 2020 and long-term liability activity for the year ended June 30, 2020 are summarized below (in thousands):

	June 30, 2019	Additions	Reductions	June 30, 2020	Current Portion	Noncurrent Portion
<u>Bonds, notes and capital leases</u>						
General receipts bonds	\$ 1,051,785	\$ 58,525	\$ 41,765	\$ 1,068,545	\$ 45,960	\$ 1,022,585
Capital leases and other long-term obligations	81,748	13,256	7,689	87,315	5,438	81,877
Notes payable	18	8,415	6	8,427	751	7,676
Total	<u>1,133,551</u>	<u>80,196</u>	<u>49,460</u>	<u>1,164,287</u>	<u>52,149</u>	<u>1,112,138</u>
<u>Notes and leases from direct borrowings and direct placements</u>						
Capital leases	1,855	32,485	335	34,005	1,015	32,990
Notes payable	18,069	—	775	17,294	799	16,495
Total	<u>19,924</u>	<u>32,485</u>	<u>1,110</u>	<u>51,299</u>	<u>1,814</u>	<u>49,485</u>
Total bonds, notes and capital leases	<u>1,153,475</u>	<u>112,681</u>	<u>50,570</u>	<u>1,215,586</u>	<u>53,963</u>	<u>1,161,623</u>
<u>Other liabilities</u>						
Annuities payable	2,985	545	599	2,931	438	2,493
Automobile and property self insurance	329	—	196	133	133	—
Compensated absences	6,220	—	196	6,024	863	5,161
Deferred employer social security taxes	—	—	—	—	—	—
Federal loan programs	20,690	800	4,307	17,183	—	17,183
Health insurance	11,160	60,711	60,344	11,527	11,527	—
Insurance executory costs	17,692	—	253	17,439	253	17,186
Medical malpractice	31,271	4,930	5,461	30,740	8,097	22,643
Unamortized bond premium	52,103	5,551	7,145	50,509	—	50,509
Unemployment compensation	395	910	717	588	588	—
Workers' compensation	22,615	3,781	5,763	20,633	7,053	13,580
Other	14,205	5,416	2,113	17,508	854	16,654
Total other liabilities	<u>179,665</u>	<u>82,644</u>	<u>87,094</u>	<u>175,215</u>	<u>29,806</u>	<u>145,409</u>
Total	<u>\$ 1,333,140</u>	<u>\$ 195,325</u>	<u>\$ 137,664</u>	<u>\$ 1,390,801</u>	<u>\$ 83,769</u>	<u>\$ 1,307,032</u>

Annuities payable consists of the present value of future payments due under charitable remainder annuity trusts, charitable remainder unitrusts, lead trusts, irrevocable trusts and charitable gift annuities, discounted at 3.6% to 8.2%.

Bond discounts and premiums are amortized over the life of the bond using the effective interest method.

Bonds payable consists of general receipts bonds in the original amount of \$1.20 billion dated November 24, 2009 through February 19, 2020, which bear interest at 1.0% to 3.9%. The bonds are payable in annual installments through October 1, 2047. The University is required to make semi-annual deposits of varying amounts to the debt service funds held by the trustees. The bonds are secured by the net revenues of the University and the assets restricted under the bond indenture agreements. Capital leases are due in periodic installments through May 1, 2049 and bear interest at 2.1% to 4.3%. All bonds, except for the General Receipts 2009 Bonds Series B, General Receipts 2012 Bonds Series A, General Receipts 2017 Bonds Series A and B, General Receipts 2018 Bonds Series B, General Receipts 2019 Bonds Series A and General Receipts 2020 Bonds Series B, totaling \$1.00 billion, are callable between October 2020 and April 2028. The General Receipts 2009 Bonds Series B are callable on any date at the make-whole redemption price.

The indenture agreements require that certain funds be established with the trustee and with the Commonwealth.

In prior fiscal years, certain general receipts bonds series were issued as Build America Bonds (BAB) as authorized under the American Recovery and Reinvestment Act of 2009 and as Qualified Energy Conservation Bonds (QECCB) as authorized under the Recovery Act and the Hiring Incentive to Restore Employment Act of 2010. The University receives an annual cash subsidy from the U.S. Treasury equal to 35% (BAB) and 80% (QECCB) of the interest payable on the bonds. The subsidy, which was approximately \$2.1 million for fiscal years 2021 and 2020, was included in gifts and non-exchange grants in the Statements of Revenues, Expenses and Changes in Net Position. The subsidy payment is contingent on federal regulations and may be subject to change. On March 1, 2013, President Barack Obama signed an executive order reducing the budgetary authority in accounts subject to sequestration. As a result, the BAB subsidy was reduced to approximately 33% in 2021 and 2020. The QECCB subsidy was reduced to approximately 76% and 75% in 2021 and 2020, respectively.

The University's outstanding lease from direct placement contains a provision that in an event of default, outstanding amounts on State Property and Buildings Commission 102A become immediately due if the University is unable to make payment. This debt was approximately \$1.2 million and \$1.5 million as of June 30, 2021 and 2020, respectively.

The University General Receipts 2019 Bonds Series A and B, Certificates of Participation from direct placement, contain a provision that in an event of default, the trustee shall seek to enforce the pledge of General Receipts to satisfy the payment of base rent then due and payable under the facilities lease. Additionally, the facilities lessor may terminate the lease and the University's right to occupy the project on the 30th day following such event of default. This debt was approximately \$31.8 million and \$32.5 million as of June 30, 2021 and 2020, respectively.

KMSF's outstanding notes from direct placements are secured with all assets, tangible and intangible. These outstanding notes contain a provision that in the event of default, the secured party takes possession of these assets up to the amount in default. This debt was approximately \$16.6 million and \$17.3 million as of June 30, 2021 and 2020, respectively.

The University's outstanding leases from direct placements are secured with all assets related to the leases.

Principal maturities and interest on bonds, notes and capital leases for the next five fiscal years and in subsequent five-year fiscal periods as of June 30, 2021, are as follows (in thousands):

			Notes and leases from direct borrowings and direct placements		Total
	Principal	Interest	Principal	Interest	
2022	\$ 54,781	\$ 45,271	\$ 1,873	\$ 1,670	\$ 103,595
2023	57,269	42,810	1,940	1,608	103,627
2024	53,684	40,377	1,999	1,548	97,608
2025	67,386	37,713	1,642	1,481	108,222
2026	54,446	35,140	1,689	1,434	92,709
2027-2031	269,338	143,885	9,256	6,377	428,856
2032-2036	226,566	90,038	11,052	4,691	332,347
2037-2041	210,486	45,616	7,284	2,967	266,353
2042-2046	117,490	12,400	7,570	1,614	139,074
2047-2049	2,985	105	5,180	327	8,597
Total	<u>\$ 1,114,431</u>	<u>\$ 493,355</u>	<u>\$ 49,485</u>	<u>\$ 23,717</u>	<u>\$ 1,680,988</u>

9. DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources as of June 30, 2021 and 2020 are as follows (in thousands):

	2021	2020
Aramark service concession arrangement	\$ 100,866	\$ 111,005
Barnes and Noble service concession arrangement	2,915	3,239
Greystar service concession arrangement	370,581	376,031
Forward delivery agreement	3,026	—
Trusts and annuities	19,224	16,358
OPEB long-term disability	3,394	2,208
OPEB retiree health	53,982	73,998
Total	<u>\$ 553,988</u>	<u>\$ 582,839</u>

The University entered into a multi-phase housing project with a third party developer, Greystar (formerly Education Realty Trust), to complete a long-term housing plan. Phase I, signed in April 2012, was for two four-story buildings (601 beds), and opened in August 2013. The project, with a cost of \$25.2 million, is on land owned by the University and leased to Greystar for a 50-year term with options for additional 10-year and 15-year terms thereafter. At the conclusion of the initial 50-year term or the first renewal option, the University will be required to purchase the buildings from Greystar for an appraised value, unless the ground lease is renewed for the first or second optional extension. At the conclusion of the second optional extension, the University is required to purchase the buildings for the greater of current net book value or \$10. Ground lease is a percentage of gross revenues. The University accounts for the ground lease as an operating lease. These facilities are subject to ad valorem tax.

Phase II-A, Phase II-B and Phase II-C, which opened in August 2014, August 2015 and August 2016 respectively, included the development of 10 residence halls at a cost of \$321.3 million. The residence halls are reported as a capital asset with a carrying value of \$294.6 million and \$299.0 million at June 30, 2021 and 2020, respectively, and deferred inflows of resources in the amount of \$282.5 million and \$286.7 million at June 30, 2021 and 2020, respectively, pursuant to the service concession arrangement.

Phase III-A, which opened in August 2017, included the construction of one residence hall at a cost of \$72.5 million. This 771 bed facility provides apartment style units for upper class, graduate and professional students. Phase III-B, which also opened in August 2017, cost \$36.4 million. This is a 346 bed facility to house undergraduate students and includes space dedicated to the Lewis Honors College. These residence halls are reported as a capital asset with a carrying value of \$102.8 million and \$104.3 million at June 30, 2021 and 2020, respectively, and deferred inflows of resources in the amount of \$88.1 million and \$89.4 million at June 30, 2021 and 2020, respectively, pursuant to the service concession arrangement.

The 75-year term lease with Greystar includes maintenance standards for the facilities and parameters for the room rental rates for the contract duration. The University will receive a percentage of the total revenues and a share of the net income after Greystar achieves a minimum internal rate of return. Phase II-A through III-B are exempt from ad valorem tax.

In July 2014, the University entered into an approximately \$250.0 million contract with Aramark Enterprise Services, LLC (Aramark), forming a 15-year public/private partnership. In September 2018, this contract was extended 5 years and \$1.3 million was added with price contract modification number 20 and in December 2019 an additional 5 years and \$2.6 million was added with price contract modification number 23. This partnership is transforming dining services offered to students, faculty, staff, and the community served. Under the partnership, several new food brands are located on campus. Aramark provides meals covered under the University's student boarding plans and declining balance dollars. The contract allows for dining commissions to be paid to the University with guaranteed minimum amounts for each contract year. Aramark

provided \$92.0 million in facilities investments, including \$59.0 million in new facilities. As part of these facilities investments, Aramark constructed a new K Lair Grill at Haggin Hall, made substantial upgrades to the student center food court and constructed "The 90" dining facility for the fall 2015 semester. The completed projects are reported as capital assets with a carrying value of \$45.1 million and \$47.4 million at June 30, 2021 and 2020, respectively, and deferred inflows of resources in the amount of \$38.3 million and \$40.4 million at June 30, 2021 and 2020, respectively, pursuant to the service concession arrangement. The present value of the guaranteed minimum payments over the remaining 18 years and 19 years of the contract is reported as a receivable of \$55.6 million and \$74.5 million and deferred inflows of resources in the amount of \$62.6 million and \$70.6 million pursuant to the service concession arrangement at June 30, 2021 and 2020, respectively.

In June 2015, the University entered into a contract with Barnes and Noble College Booksellers, LLC (Barnes and Noble) to operate and provide services for the bookstore for 10 years with an additional five year renewal option period. The bookstore is reported as a capital asset with a carrying value of \$3.1 million and \$3.3 million at June 30, 2021 and 2020, respectively, and deferred inflows of resources in the amount of \$2.3 million and \$2.5 million at June 30, 2021 and 2020, respectively, pursuant to the service concession arrangement. The present value of the guaranteed minimum payments over the remaining 9 years and 10 years is reported after the contract period as a receivable of \$272 thousand and \$404 thousand and deferred inflows of resources in the amount of \$653 thousand and \$725 thousand pursuant to the service concession arrangement as of June 30, 2021 and 2020, respectively.

As of June 30, 2021 and 2020, the beneficial interests from trusts and annuities that the University will receive in the future years of \$19.2 million and \$16.4 million, respectively, were recorded in deferred inflows of resources.

As of June 30, 2021 and 2020, the deferred inflows for the net difference between expected and actual earnings on OPEB Plan investments and the assumption changes for the retiree health plan were \$54.0 million and \$74.0 million, respectively; and the corresponding amounts for the LTD Plan were \$3.4 million and \$2.2 million, respectively.

Forward Delivery Agreement. The University entered into a bond purchase agreement on February 17, 2021 granting the purchaser the option to purchase from the University the University's General Receipts 2022 Bonds Series A that would be issued on or about January 11, 2022 if the purchaser exercises its purchase option. In consideration of the purchase option, the purchaser paid the University an option price under the agreement. If the 2022 Series A bonds are issued as provided in the agreement, the proceeds will be used for the purpose of redeeming the University's General Receipts 2014 Bonds Series B on April 1, 2022. In the event the purchaser does not exercise the purchase option, the agreement terminates.

The option price received by the University was \$3.2 million of which \$3.0 million is to be used for certain capital projects and the remaining for costs of issuance. The option payment represents the net present value savings of the refunded bonds. The value of the investment was \$2.7 million as of June 30, 2021 and was invested in the Commonwealth's investment pools.

10. COMPONENTS OF RESTRICTED EXPENDABLE NET POSITION

Restricted expendable net position is subject to externally imposed stipulations or conditions that must be followed and cannot be used for support of general operations of the University. As of June 30, 2021 and 2020, restricted expendable net position is composed of the following (in thousands):

	<u>2021</u>	<u>2020</u>
Appreciation on permanent endowments	\$ 399,983	\$ 171,843
Term endowments	8,169	6,138
Quasi-endowments initially funded with restricted assets	243,199	124,400
Funds restricted for capital projects and debt service	84,657	63,393
Funds restricted for noncapital purposes	51,261	102,175
Loan funds (primarily University funds required for federal match)	13,175	11,454
Total	<u>\$ 800,444</u>	<u>\$ 479,403</u>

11. DESIGNATIONS OF UNRESTRICTED NET POSITION

Unrestricted net position is designated for specific purposes by action of the Board or management or may otherwise be limited by contractual agreements with outside parties. Commitments for the use of unrestricted net position as of June 30, 2021 and 2020 are as follows (in thousands):

	<u>2021</u>	<u>2020</u>
Working capital requirements	\$ 41,307	\$ 78,587
Designated for future year fiscal operations	251,818	150,855
Designated for OPEB liability (see footnotes 17 and 18)	(156,806)	(170,660)
Designated for capital projects	82,901	44,642
Designated for renewal and replacement of capital assets	49,707	42,137
UK HealthCare Hospital System	1,604,208	1,165,444
Affiliated corporations and component units	166,219	141,131
Total	<u>\$ 2,039,354</u>	<u>\$ 1,452,136</u>

12. PLEDGED REVENUES

Pledged revenues for the years ended June 30, 2021 and 2020 as defined by the General Receipts Trust Indenture, are as follows (in thousands):

	2021	2020
Student tuition and fees	\$ 352,808	\$ 356,197
Nongovernmental grants and contracts	1,434	1,174
Recoveries of facilities and administrative costs	74,938	68,393
Sales and services	61,265	56,865
Hospital services	2,485,231	2,127,926
Auxiliary enterprises - housing and dining	28,327	32,066
Auxiliary enterprises - athletics	108,406	115,784
Auxiliary enterprises - other	42,261	51,932
Other operating revenue	865	1,029
State appropriations	259,101	261,056
Gifts and grants	4,567	3,249
Investment income	15,578	32,849
Total	<u>\$ 3,434,781</u>	<u>\$ 3,108,520</u>

The University has substantially pledged all of the unrestricted operating and nonoperating revenues to repay the general receipts bonds, and capital leases issued from 2009 to 2020. Proceeds from the bonds, and capital leases provided funding for new construction, major renovations, facility leases, and for the refunding of bonds and notes issued over the years. These debts are payable from unrestricted revenues, operating and nonoperating, and are payable through fiscal year 2049. Annual principal and interest payments on bonds are expected to require approximately three percent of pledged revenue. The total principal and interest remaining to be paid on the bonds is approximately \$1.51 billion and \$1.60 billion in fiscal years 2021 and 2020, respectively. Principal and interest paid for fiscal years 2021 and 2020 was \$89.8 million and \$85.5 million, respectively.

13. INVESTMENT INCOME (LOSS)

Components of investment income (loss) for the years ended June 30, 2021 and 2020 are as follows (in thousands):

	2021	2020
Interest and dividends earned on endowment investments	\$ 14,501	\$ 15,215
Realized and unrealized gains (losses) on endowment investments	418,795	(18,498)
Interest and dividends on cash and non-endowment investments	1,860	24,435
Realized and unrealized gains on non-endowment investments	11,294	4,774
Investment income from external trusts	2,552	2,527
Total	<u>\$ 449,002</u>	<u>\$ 28,453</u>

14. FUNDS HELD IN TRUST BY OTHERS

The University is the income beneficiary of various perpetual trusts that are held and controlled by external trustees. For the years ended June 30, 2021 and 2020, the University received income from these trusts of approximately \$2.1 million and \$2.0 million, respectively. The market value of the perpetual external trust assets as of June 30, 2021 and 2020 was approximately \$54.3 million and \$44.4 million, respectively. As the University does not have ownership of the trust assets held by external trustees, the trusts are recorded at a nominal value of \$1 each.

The University is the residual principal and income beneficiary of various irrevocable trusts that are held and controlled by external trustees. For the years ended June 30, 2021 and 2020, the University received income from these trusts of approximately \$403 thousand and \$447 thousand, respectively. The market value of the irrevocable external trust assets as of June 30, 2021 and 2020 was approximately \$16.5 million and \$13.3 million, respectively, and is included in endowment investments.

Effective January 1, 2016, the University became the administrator of five trusts that were previously held and controlled by external trustees. For the years ended June 30, 2021 and 2020, the University received income from these self-administered trusts of approximately \$102 thousand and \$93 thousand, respectively. The market value of the self-administered trusts as of June 30, 2021 and 2020 was approximately \$2.2 million and \$1.6 million, respectively, and is included in endowment investments.

15. GRANTS AND CONTRACTS AWARDED

At June 30, 2021 and 2020, grants and contracts of approximately \$414.5 million and \$363.0 million, respectively, have been awarded to the University, but not expended. These amounts will be recognized in future periods.

16. RETIREMENT PLANS

Regular full-time employees, including faculty, are participants in the University of Kentucky Retirement Plan (Plan), a defined contribution plan. The Plan consists of five groups as follows:

Group I	Established July 1, 1964, for faculty and certain administrative officials.
Group II	Established July 1, 1971, for staff members in the clerical, technical and service categories.
Group III	Established July 1, 1972, for staff members in the managerial, professional and scientific categories.
Group IV	Established January 1, 1973, for staff members having U.S. Civil Service retirement entitlement.
Group V	Established July 1, 1987, for staff members covered under the Federal Employees Retirement System that replaced Civil Service (those whose employment began during the period from January 1, 1984 to March 31, 1987). Staff members whose employment began after March 31, 1987 are under one of the above University of Kentucky Retirement Plans.

Participation in the Plan is mandatory for all regular full-time employees in groups I, II and III who are age 30 or older. Participation is voluntary for regular full-time employees under the age of 30 and for those employees in groups IV and V. Participants in groups I, II, III and IV contribute five percent and the University contributes 10% of the participant's eligible compensation to the retirement plan. Participants in group V contribute one percent and the University contributes two percent of the participant's eligible compensation to the retirement plan. Due to the COVID-19 pandemic and fiscal responsibility, the University decided to lower

retirement plan contributions to five percent for fiscal year 2021. Subsequent to year end, the University raised the contribution rate back to 10%.

The University has authorized two retirement plan carriers, as follows:

- Teachers Insurance and Annuity Association (TIAA)
- Fidelity Investments Institutional Services Company

Under the fully funded Plan, the University and plan participants make contributions to provide retirement benefits to employees in individually owned contracts. All payments are vested immediately for employees hired prior to January 1, 2010. For employees hired after January 1, 2010, employer contributions are vested after three years. The University's contributions and costs for fiscal years 2021 and 2020 was approximately \$70.1 million and \$134.1 million, respectively. Employees contributed approximately \$70.0 million in fiscal year 2021 and \$68.4 million in fiscal year 2020. The University's total payroll costs were approximately \$1.78 billion and \$1.70 billion for the years ended June 30, 2021 and 2020, respectively. The payroll for employees covered by the retirement plan was approximately \$1.78 billion and \$1.70 billion for the years ended June 30, 2021 and 2020, respectively.

Regular full-time KMSF employees become eligible to participate in a defined contribution plan on the employee's regular full-time hire date coinciding with or following attainment of age 20 1/2. KMSF contributes 10% of the employee's earnings and employees do not contribute to this plan. KMSF contributions for 2021 and 2020 were approximately \$1.2 million and \$1.1 million, respectively. The total payroll costs for employees covered by the defined contribution plan were approximately \$11.9 million and \$11.3 million for the years ended June 30, 2021 and 2020, respectively. Participants become vested after one year of service.

17. UNIVERSITY OF KENTUCKY OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLAN TRUST

The University's OPEB Plan is administered through the University's OPEB trust fund as an irrevocable trust. The single-employer defined benefit OPEB Plan provides medical and prescription drug benefits. The trust is a separate legal entity and is governed by the University's Board.

The Plan provides lifetime health care insurance benefits for eligible retirees and their surviving spouses. Employees are eligible for the University retiree health benefits upon retirement after (a) completing 15 years of continuous service and (b) age plus years of service equal at least 75 years ("rule of 75"). Employees hired on or after January 1, 2006 are eligible to participate in the retiree health care plan on an "access only" basis upon retirement, but they must pay 100% of the cost of the selected plan. Employees hired prior to January 1, 2006 are eligible for the University subsidy based on their hire date, and surviving spouses receive one-half of the health credit their spouse was entitled to if they were covered by the health plan at the time of the retiree's death. No health credit is provided to a spouse of a living retiree. The University's Human Resources policies and procedures define retiree health benefits and can be amended by the President of the University as delegated by the Board. Employees who were hired before August 1, 1965 are also eligible for \$5,000 of life insurance coverage upon retirement.

The OPEB Plan's trust activity is reported in the University's Statements of Fiduciary Net Position and Statements of Changes in Fiduciary Net Position, and Required Supplementary Information.

For Plan reporting purposes, GASB Statement No. 74 measures net OPEB liability as of June 30, 2021 for fiscal year 2021. For employer reporting purposes, GASB Statement No. 75 measures net OPEB liability as of July 1, 2020 for fiscal year 2021. The following footnote disclosure is presented in order to comply with GASB Statement No. 75 and GASB Statement No. 74.

The OPEB liabilities measured as of June 30, 2021 were based upon the plan members as of January 1, 2021:

Inactive members receiving benefits	3,378
Inactive members entitled not yet receiving benefits	493
Active plan members	<u>4,406</u>
Total plan members	<u><u>8,277</u></u>

The OPEB liabilities measured as of July 1, 2020 were based upon the plan members as of January 1, 2019 after reflecting census data revisions made following the determination of OPEB liabilities measured as of July 1, 2019:

Inactive members receiving benefits	3,244
Inactive members entitled not yet receiving benefits	396
Active plan members	<u>5,075</u>
Total plan members	<u><u>8,715</u></u>

The contribution requirements of plan members and the University are established and may be amended by the President of the University. For employees hired before January 1, 2006, the University provides a pre-65 credit of up to 90% of the “true retiree” cost of the least expensive pre-65 medical plan. For post-65 benefits, the University provides a credit equal to 90% of the “true retiree” cost of the post-65 medical plan. For fiscal years 2021 and 2020, the University contributed \$13.2 million and \$14.3 million to the plan, respectively. Plan members receiving benefits contributed for fiscal years 2021 and 2020 were 29.8% and 26.0%, respectively, of the premium costs, an average for combined single and family coverage. In fiscal years 2021 and 2020, total member contributions were approximately \$4.0 million and \$3.7 million, respectively.

The University’s employer net OPEB liability of \$132.3 million and \$117.9 million was measured as of July 1, 2020 and 2019, for the fiscal years ended June 30, 2021 and 2020, respectively. The University’s Plan net OPEB liability of \$14.9 million and \$132.3 million was measured as of June 30, 2021 and 2020, for the fiscal years ended June 30, 2021 and 2020, respectively. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of the measurement date.

The total OPEB liabilities measured as of July 1, 2020 and June 30, 2021 were determined using the following actuarial assumptions, applied to all periods included in the measurement:

Health care trend rate	<p>For employer reporting: Post-65 Medical rate is 1.1% for 2020 and 312.2% for 2021, followed by 75.7% in 2022 decreasing to an ultimate rate of 4.5% in 2031. Post-65 RX 6.2% initial rate for 2021 decreasing to an ultimate rate of 4.5% in 2031. Pre-65 6.3% initial rate decreasing to an ultimate rate of 4.5% in 2031.</p> <p>For Plan reporting: Post-65 Medical rate is 9.6% for 2021 decreasing to an ultimate rate of 4.5% in 2030. Post-65 RX 9.6% initial rate for 2021 decreasing to an ultimate rate of 4.5% in 2030; Pre-65 6.4% initial rate for 2021 decreasing to an ultimate rate of 4.5% in 2030.</p>
Salary scale	Three percent per year.
Retirement rates	Faculty from 0.00 to 1.00 from age 50 to 85; staff from 0.03 to 1.00 from age 50 to 85.

Discount rate and investment rate of return	7.5% based on the University's funding policy and the expected long-term return on the separate trust assets that will be used to finance the payment of plan benefits. The University has stated a funding policy to contribute an amount to the segregated and protected trust fund, such that the assets available will always be sufficient to cover the expected benefit payments.
Mortality	For July 1, 2020, PUB-2010 Amounts Weighted Mortality Table, with mortality improvement projected generationally using scale Mortality Projection-2019 for the employer. For June 30, 2021, PUB-2010 Amounts Weighted Mortality Table, with mortality improvement projected generationally using scale Mortality Projection-2020 for the Plan.
Disability	Gender and age-related disability incidence rates based on 1987 GLTD (six-month elimination period).
Plan participation	80% elect coverage.
Dependent coverage	80% of active employees are assumed to be married at their retirement. 60% of those married retirees are assumed to have spousal coverage in effect upon death. Female spouses of male retirees are assumed to be three years younger than their husbands. Male spouses of female retirees are assumed to be three years older than their wives.
Change in benefit terms	Postretirement medical benefits for Medicare eligible retirees was updated from a self-insured retiree Medical Careveout program with a deductible that is tied to the Medicare Part B deductible to a fully-insured Medicare Advantage plan effective 1/1/2019.

The actuarial assumptions used as of July 1, 2020 and June 30, 2021 were based on the results of an actuarial experience study for the period January 1, 2013 to December 31, 2014.

The components of the employer's net OPEB liability of the University measured at July 1, for fiscal year 2021 and 2020 are as follows (in thousands):

	<u>2021</u>	<u>2020</u>
Total OPEB liability	\$ 310,902	\$ 293,455
Less: Plan fiduciary net position	<u>(178,621)</u>	<u>(175,514)</u>
University of Kentucky net OPEB liability	<u>\$ 132,281</u>	<u>\$ 117,941</u>
Plan fiduciary net position as percentage of the total OPEB liability	57.5%	59.8%

The components of the Plan's net OPEB liability of the University measured at June 30, for fiscal year 2021 and 2020 are as follows (in thousands):

	<u>2021</u>	<u>2020</u>
Total OPEB liability	\$ 254,841	\$ 310,902
Less: Plan fiduciary net position	<u>(239,967)</u>	<u>(178,621)</u>
University of Kentucky net OPEB liability	<u>\$ 14,874</u>	<u>\$ 132,281</u>
Plan fiduciary net position as a percentage of the total OPEB liability	94.2%	57.5%

The OPEB Plan follows the deposit and investment policies established by the University's Board of Trustees. Such policies are developed to establish and maintain sound financial management practices for the investment and management of the OPEB funds. The fair value of deposits and investments, by Statements of Fiduciary Net Position classification, at June 30, 2021 and 2020 are as follows (in thousands):

	2021	2020
<u>Statement of Fiduciary Net Position classification</u>		
Cash and cash equivalents	\$ 4,974	\$ 4,838
Investments	234,993	173,783
Total deposits and investments	<u>\$ 239,967</u>	<u>\$ 178,621</u>

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at a measurement date. The framework for measuring fair value established by generally accepted accounting principles provides a fair value hierarchy as follows:

Level 1	Quoted prices in active markets for identical assets or liabilities.
Level 2	Observable inputs other than level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
Level 3	Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities.

The University categorizes its fair value measurements within the fair value hierarchy. Certain investments are measured at fair value using amortized costs or historical costs and therefore have not been classified in the fair value hierarchy. These investments have been included in the table below to permit reconciliation of the fair value hierarchy to the amounts presented in the Statements of Net Position.

The OPEB Plan has the following valuation measurements, by type, at June 30, 2021 (in thousands):

	Total value	Fair Value Measurement Using			Total measured at fair value	Net asset value (NAV)	Amortized or historical cost
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)			
Cash and cash equivalents	\$ 8,090	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 8,090
Diversifying strategies	38,246	—	—	—	—	38,246	—
Global equity - hedged	—	—	—	—	—	—	—
Global equity - international	39,675	14,975	—	3	14,978	24,697	—
Global equity - private	50,758	—	—	—	—	50,758	—
Global equity - U.S.	41,303	951	—	—	951	40,352	—
Global fixed income - high quality/rate sensitive	13,477	4,083	9,394	—	13,477	—	—
Global fixed income - private credit	5,851	—	—	—	—	5,851	—
Global fixed income - public credit	9,214	9,214	—	—	9,214	—	—
Real assets - private	21,665	—	—	3,536	3,536	18,129	—
Real assets - public	11,688	8,243	—	—	8,243	3,445	—
Total deposits and investments	<u>\$ 239,967</u>	<u>\$ 37,466</u>	<u>\$ 9,394</u>	<u>\$ 3,539</u>	<u>\$ 50,399</u>	<u>\$ 181,478</u>	<u>\$ 8,090</u>

The OPEB Plan has the following valuation measurements, by type, at June 30, 2020 (in thousands):

	Total value	Fair Value Measurement Using			Total measured at fair value	Net asset value (NAV)	Amortized or historical cost
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)			
Cash and cash equivalents	\$ 5,336	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 5,336
Diversifying strategies	24,373	—	—	—	—	24,373	—
Global equity - hedged	10,335	—	—	—	—	10,335	—
Global equity - international	25,760	9,795	—	2	9,797	15,963	—
Global equity - private	34,336	—	—	—	—	34,336	—
Global equity - U.S.	26,307	687	—	—	687	25,620	—
Global fixed income - high quality/rate sensitive	10,480	2,866	7,614	—	10,480	—	—
Global fixed income - private credit	4,929	—	—	—	—	4,929	—
Global fixed income - public credit	8,747	4,604	—	—	4,604	4,143	—
Real assets - private	18,212	—	—	3,165	3,165	15,047	—
Real assets - public	9,806	7,333	—	—	7,333	2,473	—
Total deposits and investments	<u>\$ 178,621</u>	<u>\$ 25,285</u>	<u>\$ 7,614</u>	<u>\$ 3,167</u>	<u>\$ 36,066</u>	<u>\$ 137,219</u>	<u>\$ 5,336</u>

Cash on deposit with the University, included in cash and cash equivalents above, is managed based on the University's Operating Fund Investment Policy established by the Treasurer of the University. All other OPEB trust investments are managed within guidelines established by the University's Endowment Investment Policy, as approved by the Investment Committee of the University's Board, which governs the University's pooled endowment fund.

OPEB deposits and investments are exposed to various risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could affect the investment amounts in the Statements of Fiduciary Net Position.

Endowment managers are permitted to use derivative instruments to limit credit risk, interest rate risk and foreign currency risk. For more information regarding the policies in place to mitigate these and other risks see note 2.

The following reflects the approved asset allocation for both the employer and Plan, as of June 30, 2021 and 2020.

Asset Category	Target Allocation	
	2021	2020
Diversifying strategies	20%	15%
Global equity	53%	52%
Global fixed income	13%	16%
Real assets	14%	17%

For the years ended June 30, 2021 and 2020, the annual money-weighted rate of return on the OPEB Plan investments, net of OPEB Plan investment expense was 27.8% and (3.1)%, respectively. The money-weighted rate of return expresses investment performance, net of investment expenses, adjusted for the changing amounts actually invested.

The long-term expected rate of return on OPEB Plan investments was determined using efficient frontier modeling software for Monte Carlo simulations that analyze risk, return and the probability of meeting return

objectives over multi-year periods. The modeling, which incorporates forward-looking return forecasts as well as historical risk and correlation data, identifies portfolios with the highest expected return at each level of risk.

The following reflects the expected rates of return for the employer, presented as geometric means, by asset allocation as of July 1, 2020 and 2019:

Asset Category	Long-term Expected Real Rate of Return	
	2021	2020
Diversifying strategies	3.7%	3.4%
Global equity	6.7%	5.9%
Global fixed income	2.8%	3.5%
Real assets	7.3%	6.8%

The following reflects the expected rates of return for the Plan, presented as geometric means, by asset allocation as of June 30, 2021 and 2020:

Asset Category	Long-term Expected Real Rate of Return	
	2021	2020
Diversifying strategies	3.3%	3.7%
Global equity	5.7%	6.7%
Global fixed income	1.9%	2.8%
Real assets	6.1%	7.3%

The discount rate used to measure the total OPEB liability for the employer and Plan was 7.5% for the year ended June 30, 2021, which was the same from the July 1, 2020 measurement date. The projection of cash flows used to determine the discount rate assumed that University contributions will be made at rates equal to actuarially determined contributions. Based on those assumptions, the OPEB Plan fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. Therefore, the long-term expected rate of return on OPEB Plan investments of 7.5% was applied to all periods of projected benefit payments to determine the total OPEB liability.

The components of the employer net OPEB liability of the University at June 30, 2021 and 2020 are as follows (in thousands):

	2021		
	Increase (decrease)		
	Total OPEB liability	Plan fiduciary net position	Net OPEB liability
Balance recognized at 7/1/2020 (based on 7/1/2019 measurement date)	\$ 293,455	\$ 175,514	\$ 117,941
Change recognized for the fiscal year:			
Service cost	2,668	—	2,668
Interest on the total OPEB liability	21,888	—	21,888
Changes of benefit terms	—	—	—
Differences between expected and actual experience	757	—	757
Changes of assumptions	870	—	870
Benefit payments	(8,736)	(8,736)	—
Contributions from the employer	—	14,292	(14,292)
Net investment income	—	(838)	838
Administrative expense	—	(1,611)	1,611
Net changes	<u>17,447</u>	<u>3,107</u>	<u>14,340</u>
Balance recognized at 6/30/2021 (based on 7/1/2020 measurement date)	<u>\$ 310,902</u>	<u>\$ 178,621</u>	<u>\$ 132,281</u>
	2020		
	Increase (decrease)		
	Total OPEB liability	Plan fiduciary net position	Net OPEB liability
Balance recognized at 7/1/2019 (based on 7/1/2018 measurement date)	\$ 391,034	\$ 159,543	\$ 231,491
Change recognized for the fiscal year:			
Service cost	3,953	—	3,953
Interest on the total OPEB liability	29,225	—	29,225
Changes of benefit terms	(58,343)	—	(58,343)
Differences between expected and actual experience	1,921	—	1,921
Changes of assumptions	(63,511)	—	(63,511)
Benefit payments	(10,824)	(10,824)	—
Contributions from the employer	—	18,804	(18,804)
Net investment income	—	9,367	(9,367)
Administrative expense	—	(1,376)	1,376
Net changes	<u>(97,579)</u>	<u>15,971</u>	<u>(113,550)</u>
Balance recognized at 6/30/2020 (based on 7/1/2019 measurement date)	<u>\$ 293,455</u>	<u>\$ 175,514</u>	<u>\$ 117,941</u>

The following presents the employer's 2021 and 2020 net OPEB liability of the University, as well as what the University's net OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.5%) or one-percentage-point higher (8.5%) than the current discount rate (in thousands):

	2021		
	1% Decrease (6.5%)	Current Rate (7.5%)	1% Increase (8.5%)
Total OPEB liability	\$ 356,492	\$ 310,902	\$ 274,009
Plan fiduciary net position	(178,621)	(178,621)	(178,621)
Net OPEB liability	<u>\$ 177,871</u>	<u>\$ 132,281</u>	<u>\$ 95,388</u>

	2020		
	1% Decrease (6.5%)	Current Rate (7.5%)	1% Increase (8.5%)
Total OPEB liability	\$ 338,357	\$ 293,455	\$ 256,851
Plan fiduciary net position	(175,514)	(175,514)	(175,514)
Net OPEB liability	<u>\$ 162,843</u>	<u>\$ 117,941</u>	<u>\$ 81,337</u>

The following presents what the employer's 2021 and 2020 net OPEB liability would be if it were calculated using the health care cost trend rate that is one-percentage-point lower or one-percentage-point higher than the current health care cost trend rate (in thousands):

	2021		
	1% Decrease	Trend Rate	1% Increase
Total OPEB liability	\$ 269,655	\$ 310,902	\$ 362,066
Plan fiduciary net position	(178,621)	(178,621)	(178,621)
Net OPEB liability	<u>\$ 91,034</u>	<u>\$ 132,281</u>	<u>\$ 183,445</u>

	2020		
	1% Decrease	Trend Rate	1% Increase
Total OPEB liability	\$ 254,821	\$ 293,455	\$ 340,953
Plan fiduciary net position	(175,514)	(175,514)	(175,514)
Net OPEB liability	<u>\$ 79,307</u>	<u>\$ 117,941</u>	<u>\$ 165,439</u>

The following presents the Plan's 2021 and 2020 net OPEB liability of the University, as well as what the University's Plan net OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.5%) or one-percentage-point higher (8.5%) than the current discount rate (in thousands):

	2021		
	1% Decrease (6.5%)	Current Rate (7.5%)	1% Increase (8.5%)
Total OPEB liability	\$ 289,042	\$ 254,841	\$ 226,590
Plan fiduciary net position	(239,967)	(239,967)	(239,967)
Net OPEB liability	<u>\$ 49,075</u>	<u>\$ 14,874</u>	<u>\$ (13,377)</u>

	2020		
	1% Decrease (6.5%)	Current Rate (7.5%)	1% Increase (8.5%)
Total OPEB liability	\$ 356,492	\$ 310,902	\$ 274,009
Plan fiduciary net position	(178,621)	(178,621)	(178,621)
Net OPEB liability	<u>\$ 177,871</u>	<u>\$ 132,281</u>	<u>\$ 95,388</u>

The following presents what the Plan's 2021 and 2020 net OPEB liability would be if it were calculated using the health care cost trend rate that is one-percentage-point lower or one-percentage-point higher than the current health care cost trend rate (in thousands):

	2021		
	1% Decrease	Trend Rate	1% Increase
Total OPEB liability	\$ 224,389	\$ 254,841	\$ 291,812
Plan fiduciary net position	(239,967)	(239,967)	(239,967)
Net OPEB liability (asset)	<u>\$ (15,578)</u>	<u>\$ 14,874</u>	<u>\$ 51,845</u>

	2020		
	1% Decrease	Trend Rate	1% Increase
Total OPEB liability	\$ 269,655	\$ 310,902	\$ 362,066
Plan fiduciary net position	(178,621)	(178,621)	(178,621)
Net OPEB liability	<u>\$ 91,034</u>	<u>\$ 132,281</u>	<u>\$ 183,445</u>

For the year ended June 30, 2021, the University recorded OPEB expense reduction of \$1.2 million and reported deferred outflows of resources and deferred inflows of resources (in thousands) from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between actual and expected experience	\$ 5,683	\$ (491)
Net difference between expected and actual earnings on OPEB Plan investment	13,177	—
Assumption changes	709	(53,491)
Contributions made subsequent to the measurement date of the net OPEB liability	13,245	—
Total	<u>\$ 32,814</u>	<u>\$ (53,982)</u>

For the year ended June 30, 2020, the University recognized OPEB expense reduction of \$53.2 million and reported deferred outflows of resources and deferred inflows of resources (in thousands) from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between actual and expected experience	\$ 7,489	\$ (684)
Net difference between expected and actual earnings on OPEB Plan investment	2,269	—
Assumption changes	—	(73,314)
Contributions made subsequent to the measurement date of the net OPEB liability	14,292	—
Total	<u>\$ 24,050</u>	<u>\$ (73,998)</u>

At June 30, 2021, the University reported \$13.2 million as deferred outflows of resources related to OPEB resulting from University contributions subsequent to the measurement date and prior to year end that will be recognized as a reduction of the net OPEB liability during the year ending June 30, 2022. Other amounts (in thousands) reported as deferred outflows of resources and deferred inflows of resources at June 30, 2021, related to OPEB will be recognized in OPEB expense as follows:

2022	\$ (14,115)
2023	(13,018)
2024	(8,723)
2025	1,325
2026	118
Total thereafter	—
	<u>\$ (34,413)</u>

18. UNIVERSITY OF KENTUCKY LONG-TERM DISABILITY (LTD) PLAN TRUST

The University of Kentucky LTD Plan is administered through the University's LTD trust fund as an irrevocable trust. The trust pays claims and establishes necessary reserves. The trust is a separate legal entity and is governed by the University's Board. The coverage of the LTD benefits is established and may be amended by the President of the University.

Regular employees with a full-time equivalent of 0.75 or greater who have completed 12 months of service are automatically enrolled in the plan. To be covered, an employee must be actively at work on the first day of the month after the employee completes one full year of service. An employee approved for long-term disability receives benefits based on the employee's basic regular monthly salary at the time of the onset of the disabling condition. Primary income benefits provide payment of 60% of the basic regular monthly salary less any disability received from government programs and/or another employer for the same condition. Basic salary for medical faculty is defined as the tenure base salary. Other sources of income used in the benefit formula include Social Security, worker's compensation or other similar government programs, veterans' or other governmental disability payments, or other employer-sponsored disability benefits.

Employees approved for long-term disability receive 100% of their basic salary for the first six months and 60% thereafter. Benefits end when plan members recover, die, terminate employment or retire. In most cases, claimants retire at age 65. The plan also includes provisions for health insurance that allow participants who were enrolled in a health plan at the time their disability benefit began to continue health coverage (University subsidy limited to 29 months for claimants approved on or after October 1, 2006), life insurance benefit (\$10,000 before July 1, 2007 or one times salary on or after July 1, 2007) and retirement contributions equal to 10% of pre-disability salary per year for applications filed on or after October 1, 2006 and 15% of pre-disability salary per year for applications filed before October 1, 2006.

The LTD Plan's trust activity is reported in the University's Statements of Fiduciary Net Position and Statements of Changes in Fiduciary Net Position, and Required Supplementary Information.

For Plan reporting purposes, GASB Statement No. 74 measures net LTD liability as of June 30, 2021 for fiscal year 2021. For employer reporting purposes, GASB Statement No. 75 measures net LTD liability as of July 1, 2020 for fiscal year 2021. The following footnote disclosure is presented in order to comply with GASB Statement No. 75 and GASB Statement No.74.

The LTD liabilities measured as of June 30, 2021 were based upon the following plan participants as of January 1, 2021:

Disabled members	
Count of members	130
Average age at valuation date	56.7
Average duration since disability (in years)	9.0
Average monthly income net benefit	\$857.00
Active (healthy) members	
Count of members	19,145
Average age at valuation date	43.7
Average years of service	9.2

The LTD liabilities measured as of July 1, 2020 were based upon the following plan participants as of January 1, 2019:

Disabled members	
Count of members	149
Average age at valuation date	56.7
Average duration since disability (in years)	8.7
Average monthly income net benefit	\$672.74
Active (healthy) members	
Count of members	18,266
Average age at valuation date	43.9
Average years of service	9.7

The contribution requirements of the University are established and may be amended by the President of the University. The University contributes to the LTD trust based on the actuarially determined contribution. For the year ended June 30, 2021 and 2020, the University's contribution was approximately \$1.9 million and \$1.8 million, respectively.

The University's employer net LTD liability of \$4.0 million was measured as of July 1, 2020 and 2019, for the fiscal years ended June 30, 2021 and 2020, respectively. The University's Plan net LTD liability (asset) of (\$1.8) million and \$4.0 million was measured as of June 30, 2021 and 2020, for the fiscal years ended June 30, 2021 and 2020, respectively. The total LTD liability used to calculate the net LTD liability was determined by an actuarial valuation as of the measurement date.

The total LTD liabilities measured as of July 1, 2020 and June 30, 2021 were determined using the following actuarial assumptions, applied to all periods included in the measurement:

Discount rate and investment rate of return	6.5% based on the University's funding policy and the expected long-term return on the separate trust assets that will be used to finance the payment of Plan benefits. The University has stated that its funding policy is to contribute an amount to a segregated and protected trust. The amount will be such that the assets available will always be sufficient to cover the expected benefit payments.
Elimination period	Six months.
Termination (mortality and recovery from disability)	2012 Society of Actuaries group LTD table.
Mortality (only for life insurance)	Canadian Institute of Actuaries 1988-94 LTD Table.
Retirement rates	Faculty from 0.00 to 1.00 from age 50 to 85; staff from 0.03 to 1.00 from age 50 to 85.
Mortality rates for actives	For July 1, 2020, PUB-2010 Amounts Weighted Mortality Table, with mortality improvement projected generationally using Mortality Projection-2019 for the employer. For June 30, 2021 PUB-2010 Public Plans, with mortality improvement projected generationally using Mortality Projection-2020 for the Plan.
Incidence of disability	Gender and age related disability incidence rates based on 1987 Commissioner's group LTD table.
Duration of payment	Payments are assumed to be made until the later of: i) age 65 and ii) five years after date of disability.

LTD income benefit	
Disability benefit	Actual net benefit currently being paid (if currently disabled).
Social Security offset	Assume 90% of the members who have been disabled for less than 24 months and currently not entitled to a Social Security offset will immediately receive an offset.
Future salary increase for active members	Three percent per year.
Change in assumptions and benefit terms	For July 1, 2020, the mortality table was updated from the PUB-2010 Amounts Weighted Mortality Table, with mortality improvement projected generationally using scale Mortality Projection-2018 to PUB-2010 Amounts Weighted Mortality Table, with mortality improvement projected generationally using scale Mortality Projection-2019; For June 30, 2021, the mortality table was updated from the PUB-2010 Amounts Weighted Mortality Table, with mortality improvement projected generationally using scale Mortality Projection-2019 to PUB-2010 Amounts Weighted Mortality Table, with mortality improvement projected generationally using scale Mortality Projection-2020.

The actuarial assumptions used as of July 1, 2020 and June 30, 2021 were based on an actuarial experience study for the period January 1, 2013 to December 31, 2014.

The components of the employer's net LTD liability of the University measured at July 1, for fiscal year 2021 and 2020 are as follows (in thousands):

	<u>2021</u>	<u>2020</u>
Total LTD liability	\$ 26,045	\$ 25,919
Less: Plan fiduciary net position	<u>(22,066)</u>	<u>(21,944)</u>
University of Kentucky net LTD liability	<u>\$ 3,979</u>	<u>\$ 3,975</u>
Plan fiduciary net position as a percentage of the total LTD liability	84.7%	84.7%

The components of the Plan's net LTD liability of the University measured at June 30, for fiscal year 2021 and 2020 are as follows (in thousands):

	<u>2021</u>	<u>2020</u>
Total LTD liability	\$ 26,421	\$ 26,045
Less: Plan fiduciary net position	<u>(28,217)</u>	<u>(22,066)</u>
University of Kentucky net LTD liability (asset)	<u>\$ (1,796)</u>	<u>\$ 3,979</u>
Plan fiduciary net position as a percentage of the total LTD liability	106.8%	84.7%

LTD trust investment policy guidelines are established by the LTD Employee Benefits Amended and Restated Trust Agreement. Investment objectives and targeted asset allocations are reviewed and approved by the University Treasurer. Investment objectives and asset allocations are developed to establish and maintain sound financial management practices for the investment and management of LTD funds. There were no significant investment policy changes during the fiscal year ended June 30, 2021.

The fair value of deposits and investments, by Statements of Fiduciary Net Position classification, at June 30, 2021 and 2020 are as follows (in thousands):

	<u>2021</u>	<u>2020</u>
<u>Statement of Fiduciary Net Position classification</u>		
Cash and cash equivalents	\$ 1,522	\$ 1,451
Investments	<u>26,679</u>	<u>20,604</u>
Total deposits and investments	<u>\$ 28,201</u>	<u>\$ 22,055</u>

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at a measurement date. The framework for measuring fair value established by generally accepted accounting principles provides a fair value hierarchy as follows:

Level 1	Quoted prices in active markets for identical assets or liabilities.
Level 2	Observable inputs other than level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
Level 3	Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities.

The University categorizes its fair value measurements within the fair value hierarchy. Certain investments are measured at amortized costs or historical costs and therefore have not been classified in the fair value hierarchy. These investments have been included in the table below to permit reconciliation of the fair value hierarchy to the amounts presented in the Statements of Net Position.

The LTD Plan has the following valuation measurements, by type, at June 30, 2021 (in thousands):

	<u>Total value</u>	<u>Fair Value Measurement Using</u>		<u>Amortized or historical cost</u>
		<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Total measured at fair value</u>	
Cash and cash equivalents	\$ 1,522	\$ —	\$ —	\$ 1,522
Diversifying strategies	1,255	1,255	1,255	—
Global equity - hedged	—	—	—	—
Global equity - international	6,994	6,994	6,994	—
Global equity - U.S.	10,585	10,585	10,585	—
Global fixed income - high quality/rate sensitive	5,163	5,163	5,163	—
Global fixed income - public credit	1,866	1,866	1,866	—
Real assets - public	<u>816</u>	<u>816</u>	<u>816</u>	<u>—</u>
Total deposits and investments	<u>\$ 28,201</u>	<u>\$ 26,679</u>	<u>\$ 26,679</u>	<u>\$ 1,522</u>

The LTD Plan had the following valuation measurements, by type, at June 30, 2020 (in thousands):

	Total value	Fair Value Measurement Using		
		Quoted prices in active markets for identical assets (Level 1)	Total measured at fair value	Amortized or historical cost
Cash and cash equivalents	\$ 1,451	\$ —	\$ —	\$ 1,451
Diversifying strategies	982	982	982	—
Global equity - hedged	176	176	176	—
Global equity - international	4,037	4,037	4,037	—
Global equity - U.S.	8,477	8,477	8,477	—
Global fixed income - high quality/rate sensitive	2,841	2,841	2,841	—
Global fixed income - public credit	3,180	3,180	3,180	—
Real assets - public	911	911	911	—
Total deposits and investments	<u>\$ 22,055</u>	<u>\$ 20,604</u>	<u>\$ 20,604</u>	<u>\$ 1,451</u>

The LTD trust investments are exposed to various risks. Due to the level of risk associated with certain investments securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could affect the investment amounts in the Statements of Fiduciary Net Position.

The trustee of the LTD trust diversifies the investments to minimize the risk of losses due to credit risk, interest rate risk, currency and other risks, as appropriate, based on market conditions. At June 30, 2021, the LTD trust had no underlying investments in any one issuer which represented more than five percent of total investments, other than U.S. Treasury and agency obligations, as a way to limit concentration of credit risks. For a description of credit, interest rate, foreign currency and concentration of credit risks see note 2.

The following reflects the approved asset allocation for the employer and Plan as of June 30, 2021 and 2020:

Asset Category	Target Allocation	
	2021	2020
Global equity	70%	70%
Global fixed income	30%	30%

The annual money-weighted rate of return on the LTD Plan investments, net of LTD Plan investment expense was 27.7% and 0.5% for the years ended June 30, 2021 and 2020, respectively. The money-weighted rate of return expresses investment performance, net of investment expenses, adjusted for the changing amounts actually invested.

The long-term expected rate of return on LTD Plan investments was determined by combining market-implied equilibrium returns with the trustee's subjective views using a Black-Litterman technique.

The following reflects the expected rates of return for the employer, presented as arithmetic means, by asset allocation as of July 1, 2020 and 2019:

Asset Category	Long-term Expected Real Rate of Return	
	2021	2020
Diversifying strategies	5.0%	5.0%
Global equity	7.0%	5.9%
Global fixed income	2.5%	0.8%

The following reflects the expected rates of return for the Plan, presented as arithmetic means, by asset allocation as of June 30, 2021 and 2020:

Asset Category	Long-term Expected Real Rate of Return	
	2021	2020
Diversifying strategies	4.2%	5.0%
Global equity	7.5%	7.0%
Global fixed income	2.1%	2.5%

The discount rate used to measure the total LTD liability for the employer and Plan was 6.5% for the year ended June 30, 2021, which was the same from the July 1, 2020 measurement date. The projection of cash flows used to determine the discount rate assumed that University contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, LTD Plan fiduciary net position was projected to be available to make all projected LTD payments for current active and inactive employees. Therefore, the long-term expected rate of return on LTD Plan investments was applied to all periods of projected benefit payments to determine the total LTD liability.

The components of the employer net LTD liability of the University at June 30, 2021, and 2020 are as follows (in thousands):

	2021		
	Increase (decrease)		
	Total LTD liability	Plan fiduciary net position	Net LTD liability
Balance recognized at 7/1/2020 (based on 7/1/2019 measurement date)	\$ 25,919	\$ 21,944	\$ 3,975
Change recognized for the fiscal year:			
Service cost	2,242	—	2,242
Interest on the total LTD liability	1,775	—	1,775
Differences between expected and actual experience	(2,140)	—	(2,140)
Changes of assumptions	(3)	—	(3)
Benefit payments	(1,748)	(1,748)	—
Contributions from the employer	—	1,789	(1,789)
Net investment income	—	145	(145)
Administrative expense	—	(64)	64
Net changes	126	122	4
Balance recognized at 6/30/2021 (based on 7/1/2020 measurement date)	<u>\$ 26,045</u>	<u>\$ 22,066</u>	<u>\$ 3,979</u>
	2020		
	Increase (decrease)		
	Total LTD liability	Plan fiduciary net position	Net LTD liability
Balance recognized at 7/1/2019 (based on 7/1/2018 measurement date)	\$ 25,517	\$ 20,081	\$ 5,436
Change recognized for the fiscal year:			
Service cost	2,241	—	2,241
Interest on the total LTD liability	1,750	—	1,750
Differences between expected and actual experience	(1,782)	—	(1,782)
Changes of assumptions	(123)	—	(123)
Benefit payments	(1,684)	(1,684)	—
Contributions from the employer	—	2,063	(2,063)
Net investment income	—	1,548	(1,548)
Administrative expense	—	(64)	64
Net changes	402	1,863	(1,461)
Balance recognized at 6/30/2020 (based on 7/1/2019 measurement date)	<u>\$ 25,919</u>	<u>\$ 21,944</u>	<u>\$ 3,975</u>

The following presents the employer's 2021 and 2020 net LTD liability of the University, as well as what the University's net LTD liability would be if it were calculated using a discount rate that is one-percentage-point lower (5.5%) or one-percentage-point higher (7.5%) than the current discount rate (in thousands):

	2021		
	1% Decrease (5.5%)	Current Rate (6.5%)	1% Increase (7.5%)
Total LTD liability	\$ 27,109	\$ 26,045	\$ 25,030
Plan fiduciary net position	(22,066)	(22,066)	(22,066)
Net LTD liability	<u>\$ 5,043</u>	<u>\$ 3,979</u>	<u>\$ 2,964</u>

	2020		
	1% Decrease (5.5%)	Current Rate (6.5%)	1% Increase (7.5%)
Total LTD liability	\$ 27,079	\$ 25,919	\$ 24,813
Plan fiduciary net position	(21,944)	(21,944)	(21,944)
Net LTD liability	<u>\$ 5,135</u>	<u>\$ 3,975</u>	<u>\$ 2,869</u>

The following presents the Plan's 2021 and 2020 net LTD liability of the University, as well as what the University's net LTD liability would be if it were calculated using a discount rate that is one-percentage-point lower (5.5%) or one-percentage-point higher (7.5%) than the current discount rate (in thousands):

	2021		
	1% Decrease (5.5%)	Current Rate (6.5%)	1% Increase (7.5%)
Total LTD liability	\$ 27,595	\$ 26,421	\$ 25,322
Plan fiduciary net position	(28,217)	(28,217)	(28,217)
Net LTD liability (asset)	<u>\$ (622)</u>	<u>\$ (1,796)</u>	<u>\$ (2,895)</u>

	2020		
	1% Decrease (5.5%)	Current Rate (6.5%)	1% Increase (7.5%)
Total LTD liability	\$ 27,109	\$ 26,045	\$ 25,030
Plan fiduciary net position	(22,066)	(22,066)	(22,066)
Net LTD liability	<u>\$ 5,043</u>	<u>\$ 3,979</u>	<u>\$ 2,964</u>

For the year ended June 30, 2021, the University recorded LTD expense of \$2.5 million and reported deferred outflows of resources and deferred inflows of resources, in thousands, from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between actual and expected experience	\$ 774	\$ (3,287)
Net difference between expected and actual earnings on LTD Plan investment	726	—
Assumption changes	622	(107)
Contributions made subsequent to the measurement date of the net LTD liability	1,894	—
Total	<u>\$ 4,016</u>	<u>\$ (3,394)</u>

For the year ended June 30, 2020, the University recognized LTD expense of \$2.6 million and reported deferred outflows of resources and deferred inflows of resources, in thousands, from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between actual and expected experience	\$ 896	\$ (1,599)
Net difference between expected and actual earnings on LTD Plan investment	—	(492)
Assumption changes	727	(117)
Contributions made subsequent to the measurement date of the net LTD liability	1,789	—
Total	<u>\$ 3,412</u>	<u>\$ (2,208)</u>

At June 30, 2021, the University reported \$1.9 million as deferred outflows of resources related to LTD resulting from University contributions subsequent to the measurement date and prior to year end that will be recognized as a reduction of the net LTD liability during the year ending June 30, 2022. Other amounts, in thousands, reported as deferred outflows of resources and deferred inflows of resources at June 30, 2021, related to OPEB will be recognized in LTD expense as follows:

2022	\$ (177)
2023	(37)
2024	(29)
2025	18
2026	(238)
Total thereafter	(809)
	<u>\$ (1,272)</u>

19. RISK MANAGEMENT

The University is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by (1) the State Fire and Tornado Insurance Fund (the insurance fund), (2) Sovereign Immunity and the Commonwealth's Board of Claims, or (3) in the case of risks not covered by the insurance fund and Sovereign Immunity, commercial insurance, participation in insurance risk retention groups or self-insurance.

The insurance fund covers losses to property from fire, wind, earthquake, flood and most other causes of loss between \$5 thousand and \$1.0 million per occurrence. Losses in excess of \$1.0 million are insured by commercial carriers up to \$1.50 billion per occurrence with buildings and contents insured at replacement cost. As a state agency, the University is vested with Sovereign Immunity and is subject to the provisions of the Board of Claims, under which the University's liability for certain negligence claims is limited to \$250 thousand for any one person or \$400 thousand for all persons damaged by a single act of negligence. Claims against educators' errors and omissions and wrongful acts are insured through a reciprocal risk retention group. There have been no significant reductions in insurance coverage from fiscal years 2020 to 2021. Settlements have not exceeded insurance coverage during the past three years.

The University and its agents are insured against medical malpractice by a combination of Sovereign Immunity, self-insurance, commercial liability insurance and an excess coverage fund established by the Commonwealth. An actuarial valuation is performed to determine the self-insurance funding requirements and the fund liability, which has been discounted using an interest rate of 3.5%. The malpractice liability as of June 30, 2021 is based on the requirements of GASB Statement No. 10, which requires that a liability for claims be recorded if it is probable that a loss has occurred and the amount of loss can be reasonably estimated. The liability includes an estimate for claims that have been incurred but not reported as of June 30, 2021.

The University also self-insures certain employee benefits, including health insurance, workers' compensation and unemployment claims to the extent not covered by insurance. The University has recorded an estimate for asserted claims at June 30, 2021.

20. CONTINGENCIES

The University is a defendant in various lawsuits. The nature of the educational and health care industries is such that, from time to time, claims will be presented on account of alleged negligence, acts of discrimination, medical malpractice, breach of contract or disagreements arising from the interpretation of laws or regulations. While some of these claims may be for substantial amounts, they are not unusual in the ordinary course of providing educational and health care services at a large institution. However, University officials are of the opinion, based on advice of in-house legal counsel, that the effect of the ultimate outcome of all litigation will not be material to the future operations or financial position of the University.

The University invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying statements of net position.

The University is currently participating in numerous grants from various departments and agencies of the federal and state governments. The expenditures of grant proceeds must be allowable for eligible purposes. Single audits and audits by the granting department or agency may result in request for reimbursement of unused grant proceeds or disallowed expenditures. Upon notification of final approval by the granting department or agency, the grants are considered closed.

The University has a defined benefit postretirement health care plan whereby it agrees to provide certain postretirement benefits to eligible employees. The benefit obligation is the actuarial present value of all

benefits attributed to service rendered prior to the valuation date. It is reasonably possible that events could occur that would change the estimated amount of this liability materially in the near term.

21. CANCER RESEARCH MATCH

The Kentucky General Assembly created the Cancer Research Institutions Matching Fund, which is funded by a one-cent surtax levied on every 20 cigarettes sold in Kentucky. Tax revenues are made available equally to the University of Kentucky and the University of Louisville when matched dollar-for-dollar by private sources.

A summary of the receipts and expenses related to the fund as of June 30, 2021 and 2020 are as follows (in thousands):

	2021	2020
Funds from private sources approved for match	\$ 6,528	\$ 6,857
Cigarette excise tax funds distributed	1,780	1,835
Total cancer research matching fund revenues	<u>\$ 8,308</u>	<u>\$ 8,692</u>
Cancer research matching fund expenses	<u>\$ 8,151</u>	<u>\$ 6,670</u>

22. NATURAL CLASSIFICATION

The University's operating expenses by natural classification for the years ended June 30, 2021 and 2020 are as follows (in thousands):

	2021	2020
Salaries and wages	\$ 1,786,131	\$ 1,710,305
Employee benefits	401,280	378,653
Supplies and services	1,178,063	1,043,184
Depreciation	205,963	191,223
Student scholarships and financial aid	79,595	71,261
Purchased utilities	42,074	43,264
Other, various	152,362	148,664
Total	<u>\$ 3,845,468</u>	<u>\$ 3,586,554</u>

23. CURRENT ECONOMIC UNCERTAINTIES

While the COVID-19 pandemic continues to impact the economy, the duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

24. COMBINED CONDENSED STATEMENTS

The University of Kentucky and its blended component units' condensed statements for the years ended June 30, 2021 and 2020 are summarized as follows (in thousands):

UNIVERSITY OF KENTUCKY
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
COMBINED CONDENSED STATEMENT OF NET POSITION AS OF JUNE 30, 2021
(in thousands)

	UK	UKRF	UKGERF	UKHF	UKMEF	CKMS	UKAA	KMSF	UKREF	BBC	Eliminations	Total
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES												
Current Assets												
Cash and cash equivalents	\$ 949,217	\$ 112,524	\$ —	\$ —	\$ 103	\$ 1,249	\$ 627	\$ 14,244	\$ 991	\$ —	\$ —	\$ 1,078,955
Notes, loans and accounts receivable, net	507,546	44,119	—	2	—	793	246	57,362	15	2,621	(49,359)	563,345
Investments	—	—	—	—	—	—	—	49,223	—	—	—	49,223
Inventories and other assets	75,549	2,992	—	—	—	15	92	1,195	9,400	—	(90)	89,153
Total current assets	1,532,312	159,635	—	2	103	2,057	965	122,024	10,406	2,621	(49,449)	1,780,676
Noncurrent Assets												
Restricted cash and cash equivalents	223,765	—	—	—	—	—	—	—	—	—	—	223,765
Endowment investments	1,829,047	19,438	11,099	1,811	2,425	—	—	—	—	—	(39)	1,863,781
Other long-term investments	411,898	3,087	—	—	—	—	29,769	50,056	—	—	(1,488)	493,322
Notes, loans and accounts receivable, net	307,558	75	—	6	—	—	58	731	—	—	—	308,428
Other noncurrent assets	6,139	—	—	—	—	—	—	—	—	—	—	6,139
Capital assets, net	3,491,507	7,307	—	—	—	—	41	101,938	—	—	—	3,600,793
Total noncurrent assets	6,269,914	29,907	11,099	1,817	2,425	—	29,868	152,725	—	—	(1,527)	6,496,228
Total assets	7,802,226	189,542	11,099	1,819	2,528	2,057	30,833	274,749	10,406	2,621	(50,976)	8,276,904
Deferred Outflows of Resources	41,608	—	—	—	—	—	—	—	—	—	—	41,608
Total assets and deferred outflows of resources	7,843,834	189,542	11,099	1,819	2,528	2,057	30,833	274,749	10,406	2,621	(50,976)	8,318,512
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES												
Current Liabilities												
Accounts payable and accrued liabilities	375,323	10,763	—	—	1	2,057	82	170,736	—	204	(181,134)	378,032
Unearned revenue	142,103	37,252	—	—	—	—	26	2,076	—	—	(90)	181,367
Long-term liabilities - current portion	83,805	—	—	—	—	—	—	4,354	—	—	—	88,159
Due to (from) the University of Kentucky	(529)	—	—	—	—	—	—	—	—	529	—	—
Total current liabilities	600,702	48,015	—	—	1	2,057	108	177,166	—	733	(181,224)	647,558
Noncurrent Liabilities												
Unearned revenue	208,501	2,454	—	—	—	—	—	—	—	—	—	210,955
Long-term liabilities	1,206,774	563	—	—	—	—	—	70,954	—	—	—	1,278,291
Net OPEB retiree health liabilities	132,281	—	—	—	—	—	—	—	—	—	—	132,281
Net OPEB long-term disability liabilities	3,979	—	—	—	—	—	—	—	—	—	—	3,979
Total noncurrent liabilities	1,551,535	3,017	—	—	—	—	—	70,954	—	—	—	1,625,506
Total liabilities	2,152,237	51,032	—	—	1	2,057	108	248,120	—	733	(181,224)	2,273,064
Deferred inflows of Resources	553,988	—	—	—	—	—	—	—	—	—	—	553,988
Total liabilities and deferred inflows of resources	2,706,225	51,032	—	—	1	2,057	108	248,120	—	733	(181,224)	2,827,052
NET POSITION												
Net investment in capital assets	1,936,316	6,988	—	—	—	—	41	26,629	—	—	—	1,969,974
Restricted												
Nonexpendable	674,929	856	4,607	618	678	—	30	—	—	—	(30)	681,688
Expendable	785,411	5,491	6,492	1,201	1,849	—	9	—	—	—	(9)	800,444
Total restricted	1,460,340	6,347	11,099	1,819	2,527	—	39	—	—	—	(39)	1,482,132
Unrestricted	1,740,953	125,175	—	—	—	—	30,645	—	10,406	1,888	130,287	2,039,354
Total net position	\$ 5,137,609	\$ 138,510	\$ 11,099	\$ 1,819	\$ 2,527	\$ —	\$ 30,725	\$ 26,629	\$ 10,406	\$ 1,888	\$ 130,248	\$ 5,491,460

UNIVERSITY OF KENTUCKY
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
COMBINED CONDENSED STATEMENT OF NET POSITION AS OF JUNE 30, 2020
(in thousands)

	UK	UKRF	UKGERF	UKHF	UKMEF	CKMS	UKAA	KMSF	UKREF	BBC	Eliminations	Total
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES												
Current Assets												
Cash and cash equivalents	\$ 894,730	\$ 117,965	\$ —	\$ —	\$ 76	\$ 1,140	\$ 629	\$ 9,701	\$ —	\$ —	\$ —	\$ 1,024,241
Notes, loans and accounts receivable, net	420,214	34,597	—	—	—	737	245	60,994	—	—	(86,026)	430,761
Investments	—	—	—	—	—	—	—	16,119	—	—	—	16,119
Inventories and other assets	63,719	2,866	—	—	—	17	42	1,394	—	—	(90)	67,948
Total current assets	1,378,663	155,428	—	—	76	1,894	916	88,208	—	—	(86,116)	1,539,069
Noncurrent Assets												
Restricted cash and cash equivalents	206,924	120	—	—	—	—	—	—	—	—	—	207,044
Endowment investments	1,338,416	14,860	8,819	1,444	1,913	—	—	—	—	—	(30)	1,365,422
Other long-term investments	243,797	2,646	—	—	—	—	22,810	43,891	—	—	(1,677)	311,467
Notes, loans and accounts receivable, net	349,934	74	—	—	—	—	111	608	—	—	—	350,727
Other noncurrent assets	5,202	—	—	—	—	—	—	—	—	—	(90)	5,112
Capital assets, net	3,424,239	7,768	—	—	—	33	43	105,564	—	—	—	3,537,647
Total noncurrent assets	5,568,512	25,468	8,819	1,444	1,913	33	22,964	150,063	—	—	(1,797)	5,777,419
Total assets	6,947,175	180,896	8,819	1,444	1,989	1,927	23,880	238,271	—	—	(87,913)	7,316,488
Deferred Outflows of Resources												
	33,593	—	—	—	—	—	—	—	—	—	—	33,593
Total assets and deferred outflows of resources	6,980,768	180,896	8,819	1,444	1,989	1,927	23,880	238,271	—	—	(87,913)	7,350,081
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES												
Current Liabilities												
Accounts payable and accrued liabilities	309,358	8,377	—	—	1	1,894	18	130,494	—	—	(147,027)	303,115
Unearned revenue	148,909	38,772	—	—	—	—	26	2,214	—	—	(180)	189,741
Long-term liabilities - current portion	79,660	22	—	—	—	—	—	4,087	—	—	—	83,769
Due to (from) the University of Kentucky	—	—	—	—	—	—	—	—	—	—	—	—
Total current liabilities	537,927	47,171	—	—	1	1,894	44	136,795	—	—	(147,207)	576,625
Noncurrent Liabilities												
Unearned revenue	227,239	2,533	—	—	—	—	27	—	—	—	—	229,799
Long-term liabilities	1,231,253	471	—	—	—	—	—	75,308	—	—	—	1,307,032
Net OPEB retiree health liabilities	117,941	—	—	—	—	—	—	—	—	—	—	117,941
Net OPEB long-term disability liabilities	3,975	—	—	—	—	—	—	—	—	—	—	3,975
Total noncurrent liabilities	1,580,408	3,004	—	—	—	—	27	75,308	—	—	—	1,658,747
Total liabilities	2,118,335	50,175	—	—	1	1,894	71	212,103	—	—	(147,207)	2,235,372
Deferred inflows of Resources												
	582,839	—	—	—	—	—	—	—	—	—	—	582,839
Total liabilities and deferred inflows of resources	2,701,174	50,175	—	—	1	1,894	71	212,103	—	—	(147,207)	2,818,211
NET POSITION												
Net investment in capital assets												
	1,908,484	7,768	—	—	—	33	43	26,168	—	—	—	1,942,496
Restricted												
Nonexpendable	651,080	856	4,607	618	674	—	30	—	—	—	(30)	657,835
Expendable	468,357	4,694	4,212	826	1,314	—	—	—	—	—	—	479,403
Total restricted	1,119,437	5,550	8,819	1,444	1,988	—	30	—	—	—	(30)	1,137,238
Unrestricted												
	1,251,673	117,403	—	—	—	—	23,736	—	—	—	59,324	1,452,136
Total net position	\$ 4,279,594	\$ 130,721	\$ 8,819	\$ 1,444	\$ 1,988	\$ 33	\$ 23,809	\$ 26,168	\$ —	\$ —	\$ 59,294	\$ 4,531,870

UNIVERSITY OF KENTUCKY
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
COMBINED CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION FOR THE YEAR ENDED JUNE 30, 2021
(in thousands)

	UK	UKRF	UKGERF	UKHF	UKMEF	CKMS	UKAA	KMSF	UKREF	BBC	Eliminations	Total
OPERATING REVENUES												
Student tuition and fees, net	\$ 352,808	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 352,808
Federal grants and contracts	18,606	235,227	—	—	—	—	—	—	—	—	—	253,833
State and local grants and contracts	91,572	21,108	—	—	—	—	—	—	—	—	—	112,680
Nongovernmental grants and contracts	269,002	27,932	—	—	—	—	—	—	—	—	(267,575)	29,359
Recoveries of facilities and administrative costs	182	74,756	—	—	—	—	—	—	—	—	—	74,938
Sales and services	61,940	—	—	—	—	32,799	386	—	53	—	(33,843)	61,335
Federal appropriations	17,809	—	—	—	—	—	—	—	—	—	—	17,809
County appropriations	27,285	—	—	—	—	—	—	—	—	—	—	27,285
Professional clinical service fees	(2,621)	—	—	—	—	—	—	279,278	—	2,621	(2,726)	276,552
Hospital services	2,504,904	—	—	—	—	—	—	—	—	—	(5,711)	2,499,193
Auxiliary enterprises:												
Housing and dining, net	29,025	—	—	—	—	—	—	—	—	—	(698)	28,327
Athletics	108,415	—	—	—	—	—	—	—	—	—	(9)	108,406
Other auxiliaries	42,261	—	—	—	—	—	—	—	—	—	—	42,261
Other operating revenues	106	759	—	—	—	—	—	119,353	—	—	(95,736)	24,482
Total operating revenues	<u>3,521,294</u>	<u>359,782</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>32,799</u>	<u>386</u>	<u>398,631</u>	<u>53</u>	<u>2,621</u>	<u>(406,298)</u>	<u>3,909,268</u>
OPERATING EXPENSES												
Educational and general:												
Instruction	288,559	12,130	—	4	44	—	—	—	—	—	(35)	300,702
Research	104,306	211,824	12	—	—	—	—	—	—	—	(1,561)	314,581
Public service	129,845	89,349	—	—	—	—	—	—	—	—	(872)	218,322
Libraries	21,666	—	—	—	—	—	—	—	—	—	—	21,666
Academic support	88,372	2,632	—	—	—	—	—	—	—	—	(65)	90,939
Student services	60,686	—	—	—	—	—	—	—	—	—	(25)	60,661
Institutional support	64,836	947	—	—	—	32,799	2,948	—	100	—	(35,939)	65,691
Operations and maintenance of plant	89,121	132	—	—	—	—	—	—	—	—	(217)	89,036
Student financial aid	47,507	2,086	—	36	—	—	—	—	—	—	—	49,629
Depreciation	82,361	478	—	—	—	1	17	—	—	—	—	82,857
Total educational and general	<u>977,259</u>	<u>319,578</u>	<u>12</u>	<u>40</u>	<u>44</u>	<u>32,800</u>	<u>2,965</u>	<u>—</u>	<u>100</u>	<u>—</u>	<u>(38,714)</u>	<u>1,294,084</u>
Clinical operations (including depreciation of \$10,843)	476,658	—	—	—	—	—	—	394,817	—	—	(427,309)	444,166
Hospital and clinics (including depreciation of \$76,226)	1,941,015	—	—	—	—	—	—	—	—	733	(14,603)	1,927,145
Auxiliary enterprises:												
Housing and dining (including depreciation of \$10,921)	26,373	—	—	—	—	—	—	—	—	—	(1,041)	25,332
Athletics (including depreciation of \$17,717)	127,340	—	—	—	—	—	—	—	—	—	(466)	126,874
Other auxiliaries (including depreciation of \$7,399)	26,826	—	—	—	—	—	—	—	—	—	(5)	26,821
Other operating expenses	1,046	—	—	—	—	—	—	—	—	—	—	1,046
Total operating expenses	<u>3,576,517</u>	<u>319,578</u>	<u>12</u>	<u>40</u>	<u>44</u>	<u>32,800</u>	<u>2,965</u>	<u>394,817</u>	<u>100</u>	<u>733</u>	<u>(482,138)</u>	<u>3,845,468</u>
Net income (loss) from operations	<u>(55,223)</u>	<u>40,204</u>	<u>(12)</u>	<u>(40)</u>	<u>(44)</u>	<u>(1)</u>	<u>(2,579)</u>	<u>3,814</u>	<u>(47)</u>	<u>1,888</u>	<u>75,840</u>	<u>63,800</u>
NONOPERATING REVENUES (EXPENSES)												
State appropriations	259,101	—	—	—	—	—	—	—	—	—	—	259,101
COVID-19 funding	69,445	620	—	—	—	—	—	—	—	—	—	70,065
Gifts and non-exchange grants	108,449	446	3	11	—	—	1,938	—	10,453	—	(2,849)	118,451
Investment income (loss)	434,497	5,222	2,692	417	598	—	7,343	204	—	—	(1,971)	449,002
Interest on capital asset-related debt	(34,408)	—	—	—	—	—	—	(3,557)	—	—	—	(37,965)
Grants to (from) the University for noncapital purposes	18,927	(18,492)	(403)	(13)	(19)	—	—	—	—	—	—	—
Other nonoperating revenues and expenses, net	(9,758)	2,301	—	—	—	—	214	—	—	—	8	(7,235)
Net nonoperating revenues (expenses)	<u>846,253</u>	<u>(9,903)</u>	<u>2,292</u>	<u>415</u>	<u>579</u>	<u>—</u>	<u>9,495</u>	<u>(3,353)</u>	<u>10,453</u>	<u>—</u>	<u>(4,812)</u>	<u>851,419</u>
Net income (loss) before other revenues, expenses, gains, or losses	<u>791,030</u>	<u>30,301</u>	<u>2,280</u>	<u>375</u>	<u>535</u>	<u>(1)</u>	<u>6,916</u>	<u>461</u>	<u>10,406</u>	<u>1,888</u>	<u>71,028</u>	<u>915,219</u>
Capital grants and gifts	19,411	6,587	—	—	—	—	—	—	—	—	—	25,998
Additions to permanent endowments	21,211	—	—	—	4	—	—	—	—	—	(74)	21,141
Grants to (from) the University for capital purposes	29,099	(29,099)	—	—	—	—	—	—	—	—	—	—
Other, net	(2,736)	—	—	—	—	(32)	—	—	—	—	—	(2,768)
Total other revenues (expenses)	<u>66,985</u>	<u>(22,512)</u>	<u>—</u>	<u>—</u>	<u>4</u>	<u>(32)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(74)</u>	<u>44,371</u>
INCREASE (DECREASE) IN NET POSITION	<u>858,015</u>	<u>7,789</u>	<u>2,280</u>	<u>375</u>	<u>539</u>	<u>(33)</u>	<u>6,916</u>	<u>461</u>	<u>10,406</u>	<u>1,888</u>	<u>70,954</u>	<u>959,590</u>
NET POSITION, beginning of year	<u>4,279,594</u>	<u>130,721</u>	<u>8,819</u>	<u>1,444</u>	<u>1,988</u>	<u>33</u>	<u>23,809</u>	<u>26,168</u>	<u>—</u>	<u>—</u>	<u>59,294</u>	<u>4,531,870</u>
NET POSITION, end of year	<u>\$ 5,137,609</u>	<u>\$ 138,510</u>	<u>\$ 11,099</u>	<u>\$ 1,819</u>	<u>\$ 2,527</u>	<u>\$ —</u>	<u>\$ 30,725</u>	<u>\$ 26,629</u>	<u>\$ 10,406</u>	<u>\$ 1,888</u>	<u>\$ 130,248</u>	<u>\$ 5,491,460</u>

UNIVERSITY OF KENTUCKY
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
COMBINED CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION FOR THE YEAR ENDED JUNE 30, 2020
(in thousands)

	UK	UKRF	UKGERF	UKHF	UKMEF	CKMS	UKAA	KMSF	UKREF	BBC	Eliminations	Total
OPERATING REVENUES												
Student tuition and fees, net	\$ 356,197	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 356,197
Federal grants and contracts	700	219,370	—	—	—	—	—	—	—	—	—	220,070
State and local grants and contracts	90,468	19,685	—	—	—	—	—	—	—	—	—	110,153
Nongovernmental grants and contracts	302,217	30,643	—	—	—	—	—	—	—	—	(301,044)	31,816
Recoveries of facilities and administrative costs	174	68,219	—	—	—	—	—	—	—	—	—	68,393
Sales and services	56,348	1,150	—	—	—	31,820	1,097	—	—	—	(32,720)	57,695
Federal appropriations	17,641	—	—	—	—	—	—	—	—	—	—	17,641
County appropriations	27,915	—	—	—	—	—	—	—	—	—	—	27,915
Professional clinical service fees	—	—	—	—	—	—	—	259,522	—	—	(2,719)	256,803
Hospital services	2,147,434	—	—	—	—	—	—	—	—	—	(7,164)	2,140,270
Auxiliary enterprises:												
Housing and dining, net	32,103	—	—	—	—	—	—	—	—	—	(37)	32,066
Athletics	116,149	—	—	—	—	—	—	—	—	—	(365)	115,784
Other auxiliaries	51,956	—	—	—	—	—	—	—	—	—	(24)	51,932
Other operating revenues	1,029	—	—	—	—	—	—	115,721	—	—	(92,142)	24,608
Total operating revenues	<u>3,200,331</u>	<u>339,067</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>31,820</u>	<u>1,097</u>	<u>375,243</u>	<u>—</u>	<u>—</u>	<u>(436,215)</u>	<u>3,511,343</u>
OPERATING EXPENSES												
Educational and general:												
Instruction	313,855	12,017	—	—	45	—	—	—	—	—	(88)	325,829
Research	109,712	197,468	18	—	—	—	—	—	—	—	(2,350)	304,848
Public service	120,295	91,143	—	—	—	—	—	—	—	—	(942)	210,496
Libraries	25,182	—	—	—	—	—	—	—	—	—	(1)	25,181
Academic support	87,495	1,982	—	—	—	—	—	—	—	—	(155)	89,322
Student services	45,915	30	—	—	—	—	—	—	—	—	(60)	45,885
Institutional support	(671)	902	—	—	—	31,820	3,644	—	—	—	(35,685)	10
Operations and maintenance of plant	82,562	172	—	—	—	—	—	—	—	—	9,097	91,831
Student financial aid	47,571	1,951	—	37	—	—	—	—	—	—	(1)	49,558
Depreciation	76,708	459	—	—	—	9	17	—	—	—	—	77,193
Total educational and general	<u>908,624</u>	<u>306,124</u>	<u>18</u>	<u>37</u>	<u>45</u>	<u>31,829</u>	<u>3,661</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(30,185)</u>	<u>1,220,153</u>
Clinical operations (including depreciation of \$9,134)	468,761	—	—	—	—	—	—	374,988	—	—	(411,516)	432,233
Hospital and clinics (including depreciation of \$69,025)	1,736,142	—	—	—	—	—	—	—	—	—	(20,084)	1,716,058
Auxiliary enterprises:												
Housing and dining (including depreciation of \$11,191)	31,335	—	—	—	—	—	—	—	—	—	(168)	31,167
Athletics (including depreciation of \$17,397)	144,427	—	—	—	—	—	—	—	—	—	(637)	143,790
Other auxiliaries (including depreciation of \$7,283)	43,081	—	—	—	—	—	—	—	—	—	(504)	42,577
Other operating expenses	576	—	—	—	—	—	—	—	—	—	—	576
Total operating expenses	<u>3,332,946</u>	<u>306,124</u>	<u>18</u>	<u>37</u>	<u>45</u>	<u>31,829</u>	<u>3,661</u>	<u>374,988</u>	<u>—</u>	<u>—</u>	<u>(463,094)</u>	<u>3,586,554</u>
Net income (loss) from operations	<u>(132,615)</u>	<u>32,943</u>	<u>(18)</u>	<u>(37)</u>	<u>(45)</u>	<u>(9)</u>	<u>(2,564)</u>	<u>255</u>	<u>—</u>	<u>—</u>	<u>26,879</u>	<u>(75,211)</u>
NONOPERATING REVENUES (EXPENSES)												
State appropriations	261,056	—	—	—	—	—	—	—	—	—	—	261,056
COVID-19 funding	17,884	—	—	—	—	—	—	2,364	—	—	—	20,248
Gifts and non-exchange grants	116,147	304	1	1	—	—	2,104	—	—	—	(2,921)	115,636
Investment income (loss)	29,803	733	(24)	(3)	(4)	—	388	449	—	—	(2,889)	28,453
Interest on capital asset-related debt	(33,698)	—	—	—	—	—	—	(4,962)	—	—	—	(38,660)
Grants to (from) the University for noncapital purposes	14,315	(13,886)	(400)	(12)	(17)	—	—	—	—	—	—	—
Other nonoperating revenues and expenses, net	(1,643)	2,942	—	—	—	—	251	—	—	—	—	1,550
Net nonoperating revenues (expenses)	<u>403,864</u>	<u>(9,907)</u>	<u>(423)</u>	<u>(14)</u>	<u>(21)</u>	<u>—</u>	<u>2,743</u>	<u>(2,149)</u>	<u>—</u>	<u>—</u>	<u>(5,810)</u>	<u>388,283</u>
Net income (loss) before other revenues, expenses, gains, or losses	<u>271,249</u>	<u>23,036</u>	<u>(441)</u>	<u>(51)</u>	<u>(66)</u>	<u>(9)</u>	<u>179</u>	<u>(1,894)</u>	<u>—</u>	<u>—</u>	<u>21,069</u>	<u>313,072</u>
Capital grants and gifts	31,370	4,214	—	—	—	—	—	—	—	—	—	35,584
Additions to permanent endowments	15,448	2	—	—	—	—	—	—	—	—	(43)	15,407
Grants to (from) the University for capital purposes	13,293	(13,293)	—	—	—	—	—	—	—	—	—	—
Other, net	(10,749)	—	—	—	—	—	—	3	—	—	—	(10,746)
Total other revenues (expenses)	<u>49,362</u>	<u>(9,077)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>3</u>	<u>—</u>	<u>—</u>	<u>(43)</u>	<u>40,245</u>
INCREASE (DECREASE) IN NET POSITION	<u>320,611</u>	<u>13,959</u>	<u>(441)</u>	<u>(51)</u>	<u>(66)</u>	<u>(9)</u>	<u>179</u>	<u>(1,891)</u>	<u>—</u>	<u>—</u>	<u>21,026</u>	<u>353,317</u>
NET POSITION, beginning of year	<u>3,958,983</u>	<u>116,762</u>	<u>9,260</u>	<u>1,495</u>	<u>2,054</u>	<u>42</u>	<u>23,630</u>	<u>28,059</u>	<u>—</u>	<u>—</u>	<u>38,268</u>	<u>4,178,553</u>
NET POSITION, end of year	<u>\$ 4,279,594</u>	<u>\$ 130,721</u>	<u>\$ 8,819</u>	<u>\$ 1,444</u>	<u>\$ 1,988</u>	<u>\$ 33</u>	<u>\$ 23,809</u>	<u>\$ 26,168</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 59,294</u>	<u>\$ 4,531,870</u>

UNIVERSITY OF KENTUCKY
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
COMBINED CONDENSED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2021
(in thousands)

	UK	UKRF	UKGERF	UKHF	UKMEF	CKMS	UKAA	KMSF	UKREF	BBC	Eliminations	Total
CASH FLOWS FROM OPERATING ACTIVITIES												
Student tuition and fees	\$ 353,018	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 353,018
Grants and contracts	421,919	276,074	—	—	—	—	—	—	—	—	(267,575)	430,418
Recoveries of facilities and administrative costs	(9)	72,560	—	—	—	—	—	—	—	—	—	72,551
Sales and services	62,354	—	—	—	—	32,063	385	(137)	38	—	(33,755)	60,948
Federal appropriations	17,789	—	—	—	—	—	—	—	—	—	—	17,789
County appropriations	28,739	—	—	—	—	—	—	—	—	—	—	28,739
Payments to vendors and contractors	(1,389,621)	(100,285)	(12)	(36)	(11)	(1,834)	(1,237)	(346,736)	(100)	5	447,942	(1,391,925)
Student financial aid	(48,021)	—	—	—	—	—	—	—	—	—	—	(48,021)
Salaries, wages and benefits	(1,885,191)	(215,920)	—	(4)	(33)	(30,120)	(1,698)	(3,020)	—	(5)	—	(2,135,991)
Professional clinical service fees	—	—	—	—	—	—	—	282,786	—	—	(39,579)	243,207
Hospital services	2,348,082	—	—	—	—	—	—	—	—	—	(5,663)	2,342,419
Auxiliary enterprises receipts	198,860	—	—	—	—	—	—	—	—	—	(708)	198,152
Loans issued to students	(13,442)	—	—	—	—	—	—	—	—	—	—	(13,442)
Collection of loans to students	14,391	—	—	—	—	—	—	—	—	—	—	14,391
Self-insurance receipts	71,435	—	—	—	—	—	—	6,164	—	—	—	77,599
Self-insurance payments	(82,894)	—	—	—	—	—	—	—	—	—	—	(82,894)
Other receipts (payments)	(1,718)	649	—	—	—	—	—	119,353	—	—	(95,597)	22,687
Net cash provided (used) by operating activities	95,691	33,078	(12)	(40)	(44)	109	(2,550)	58,410	(62)	—	5,065	189,645
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES												
State appropriations	259,101	—	—	—	—	—	—	—	—	—	—	259,101
COVID-19 funding	65,579	—	—	—	—	—	—	—	—	—	—	65,579
Gifts and grants received for other than capital purposes:												
Gifts received for endowment purposes	21,211	—	—	—	4	—	—	—	—	—	(74)	21,141
Gifts received for other purposes	126,940	450	3	3	—	—	1,938	—	1,053	—	(2,849)	127,538
Agency and loan program receipts	246,149	—	—	—	—	—	—	—	—	—	—	246,149
Agency and loan program payments	(246,885)	—	—	—	—	—	—	—	—	—	—	(246,885)
Grants (to) from the University for noncapital purposes	18,927	(18,492)	(403)	(13)	(19)	—	—	—	—	—	—	—
Other financing receipts (payments)	(10,775)	2,050	—	—	—	—	241	—	—	—	8	(8,476)
Net cash provided (used) by noncapital financing activities	480,247	(15,992)	(400)	(10)	(15)	—	2,179	—	1,053	—	(2,915)	464,147
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES												
Capital grants and gifts	31,027	6,586	—	—	—	—	—	—	—	—	—	37,613
Purchases of capital assets	(252,571)	(17)	—	—	—	—	(15)	(7,565)	—	—	—	(260,168)
Proceeds from capital debt	585	—	—	—	—	—	—	—	—	—	—	585
Proceeds from sales of capital assets	77	—	—	—	—	—	—	—	—	—	—	77
Principal paid on capital debt and leases	(49,726)	(18)	—	—	—	—	—	(4,087)	—	—	—	(53,831)
Interest paid on capital debt and leases	(39,345)	—	—	—	—	—	—	(3,557)	—	—	—	(42,902)
Grants (to) from the University for capital purposes	28,946	(28,946)	—	—	—	—	—	—	—	—	—	—
Other financing receipts (payments)	(2,399)	—	—	—	—	—	—	406	—	—	—	(1,993)
Net cash provided (used) by capital and related financing activities	(283,406)	(22,395)	—	—	—	—	(15)	(14,803)	—	—	—	(320,619)
CASH FLOWS FROM INVESTING ACTIVITIES												
Proceeds from sales and maturities of investments	413,457	6,148	2,731	429	592	—	566	(3)	—	—	9	423,929
Interest and dividends on investments	21,396	(274)	90	14	20	—	313	(5,377)	—	—	(2,159)	14,023
Purchases of investments	(656,057)	(6,126)	(2,409)	(393)	(526)	—	(495)	(33,684)	—	—	—	(699,690)
Net cash provided (used) by investing activities	(221,204)	(252)	412	50	86	—	384	(39,064)	—	—	(2,150)	(261,738)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	71,328	(5,561)	—	—	27	109	(2)	4,543	991	—	—	71,435
CASH AND CASH EQUIVALENTS, beginning of year	1,101,654	118,085	—	—	76	1,140	629	9,701	—	—	—	1,231,285
CASH AND CASH EQUIVALENTS, end of year	\$ 1,172,982	\$ 112,524	\$ —	\$ —	\$ 103	\$ 1,249	\$ 627	\$ 14,244	\$ 991	\$ —	\$ —	\$ 1,302,720

UNIVERSITY OF KENTUCKY
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
COMBINED CONDENSED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2020
(in thousands)

	UK	UKRF	UKGERF	UKHF	UKMEF	CKMS	UKAA	KMSF	UKREF	BBC	Eliminations	Total
CASH FLOWS FROM OPERATING ACTIVITIES												
Student tuition and fees	\$ 358,119	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 358,119
Grants and contracts	363,125	275,152	—	—	—	—	—	—	—	—	(301,044)	337,233
Recoveries of facilities and administrative costs	(1,752)	69,201	—	—	—	—	—	—	—	—	—	67,449
Sales and services	57,333	—	—	—	—	31,090	1,008	(144)	—	—	(32,631)	56,656
Federal appropriations	17,955	—	—	—	—	—	—	—	—	—	—	17,955
County appropriations	28,389	—	—	—	—	—	—	—	—	—	—	28,389
Payments to vendors and contractors	(1,225,034)	(98,269)	(18)	(37)	(12)	(1,506)	(1,510)	(340,275)	—	—	427,570	(1,239,091)
Student financial aid	(49,574)	—	—	—	—	—	—	—	—	—	—	(49,574)
Salaries, wages and benefits	(1,895,176)	(208,102)	—	—	(33)	(29,618)	(2,221)	(3,243)	—	—	—	(2,138,393)
Professional clinical service fees	—	—	—	—	—	—	—	247,041	—	—	11,123	258,164
Hospital services	2,179,979	—	—	—	—	—	—	—	—	—	(6,813)	2,173,166
Auxiliary enterprises receipts	184,190	—	—	—	—	—	—	—	—	—	(426)	183,764
Loans issued to students	(20,899)	—	—	—	—	—	—	—	—	—	—	(20,899)
Collection of loans to students	23,299	—	—	—	—	—	—	—	—	—	—	23,299
Self-insurance receipts	68,813	—	—	—	—	—	—	836	—	—	—	69,649
Self-insurance payments	(74,560)	—	—	—	—	—	—	—	—	—	—	(74,560)
Other receipts (payments)	(3,518)	1,033	—	—	—	—	—	115,721	—	—	(92,142)	21,094
Net cash provided (used) by operating activities	10,689	39,015	(18)	(37)	(45)	(34)	(2,723)	19,936	—	—	5,637	72,420
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES												
State appropriations	261,056	—	—	—	—	—	—	—	—	—	—	261,056
COVID-19 funding	57,198	620	—	—	—	—	—	2,364	—	—	—	60,182
Gifts and grants received for other than capital purposes:												
Gifts received for endowment purposes	15,448	2	—	—	—	—	—	—	—	—	(43)	15,407
Gifts received for other purposes	119,918	306	1	1	—	—	2,104	—	—	—	(2,922)	119,408
Agency and loan program receipts	256,328	—	—	—	—	—	—	—	—	—	—	256,328
Agency and loan program payments	(255,923)	—	—	—	—	—	—	—	—	—	—	(255,923)
Grants (to) from the University for noncapital purposes	14,315	(13,886)	(400)	(12)	(17)	—	—	—	—	—	—	—
Other financing receipts (payments)	(1,794)	2,209	—	—	—	—	169	—	—	—	—	584
Net cash provided (used) by noncapital financing activities	466,546	(10,749)	(399)	(11)	(17)	—	2,273	2,364	—	—	(2,965)	457,042
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES												
Capital grants and gifts	50,977	4,214	—	—	—	—	—	—	—	—	—	55,191
Purchases of capital assets	(235,832)	(299)	—	—	—	—	(2)	(3,139)	—	—	—	(239,272)
Proceeds from capital debt	71,471	—	—	—	—	—	—	—	—	—	—	71,471
Proceeds from sales of capital assets	335	—	—	—	—	—	—	—	—	—	—	335
Principal paid on capital debt and leases	(46,463)	—	—	—	—	—	—	(4,105)	—	—	—	(50,568)
Interest paid on capital debt and leases	(37,467)	—	—	—	—	—	—	(4,962)	—	—	—	(42,429)
Grants (to) from the University for capital purposes	13,134	(13,134)	—	—	—	—	—	—	—	—	—	—
Other financing receipts (payments)	(6,401)	—	—	—	—	—	—	4	—	—	—	(6,397)
Net cash provided (used) by capital and related financing activities	(190,246)	(9,219)	—	—	—	—	(2)	(12,202)	—	—	—	(211,669)
CASH FLOWS FROM INVESTING ACTIVITIES												
Proceeds from sales and maturities of investments	706,789	7,635	3,974	632	860	—	755	46	—	—	30	720,721
Interest and dividends on investments	46,440	280	97	16	22	—	382	(135)	—	—	(2,702)	44,400
Purchases of investments	(646,650)	(7,673)	(3,661)	(600)	(794)	—	(733)	(12,309)	—	—	—	(672,420)
Net cash provided (used) by investing activities	106,579	242	410	48	88	—	404	(12,398)	—	—	(2,672)	92,701
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	393,568	19,289	(7)	—	26	(34)	(48)	(2,300)	—	—	—	410,494
CASH AND CASH EQUIVALENTS, beginning of year	708,086	98,796	7	—	50	1,174	677	12,001	—	—	—	820,791
CASH AND CASH EQUIVALENTS, end of year	\$ 1,101,654	\$ 118,085	\$ —	\$ —	\$ 76	\$ 1,140	\$ 629	\$ 9,701	\$ —	\$ —	\$ —	\$ 1,231,285

UNIVERSITY OF KENTUCKY
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
COMBINED STATEMENTS OF FIDUCIARY NET POSITION (in thousands)
JUNE 30, 2021 AND 2020

	2021			2020		
	OPEB Plan	LTD Plan	Total	OPEB Plan	LTD Plan	Total
ASSETS						
Cash and cash equivalents	\$ 4,974	\$ 1,522	\$ 6,496	\$ 4,838	\$ 1,451	\$ 6,289
Accrued interest receivable	—	16	16	—	11	11
Investments	234,993	26,679	261,672	173,783	20,604	194,387
Total assets	<u>239,967</u>	<u>28,217</u>	<u>268,184</u>	<u>178,621</u>	<u>22,066</u>	<u>200,687</u>
LIABILITIES						
Accounts payable and accrued liabilities	—	—	—	—	—	—
Total liabilities	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
NET POSITION						
Net position restricted for postemployment benefits other than pensions	<u>\$ 239,967</u>	<u>\$ 28,217</u>	<u>\$ 268,184</u>	<u>\$ 178,621</u>	<u>\$ 22,066</u>	<u>\$ 200,687</u>

UNIVERSITY OF KENTUCKY
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
COMBINED STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION (in thousands)
FOR THE YEARS ENDED JUNE 30, 2021 and 2020

	2021			2020		
	OPEB Plan	LTD Plan	Total	OPEB Plan	LTD Plan	Total
Additions						
Investment income (loss):						
Interest and dividend income	\$ 1,942	\$ 707	\$ 2,649	\$ 1,953	\$ 775	\$ 2,728
Net appreciation (depreciation) in fair value of investments	56,845	5,287	62,132	(2,792)	(630)	(3,422)
Net investment income (loss)	58,787	5,994	64,781	(839)	145	(694)
Contributions:						
University	13,245	1,894	15,139	14,292	1,789	16,081
Beneficiaries	3,951	—	3,951	3,719	—	3,719
Total contributions	17,196	1,894	19,090	18,011	1,789	19,800
Total additions	75,983	7,888	83,871	17,172	1,934	19,106
Deductions						
Administrative expenses	1,814	71	1,885	1,611	64	1,675
Payments to retirees and beneficiaries	12,823	1,666	14,489	12,454	1,748	14,202
Total deductions	14,637	1,737	16,374	14,065	1,812	15,877
INCREASE IN NET POSITION	61,346	6,151	67,497	3,107	122	3,229
NET POSITION restricted for the postemployment benefits other than pensions, beginning of year	178,621	22,066	200,687	175,514	21,944	197,458
NET POSITION restricted for the postemployment benefits other than pensions, end of year	\$ 239,967	\$ 28,217	\$ 268,184	\$ 178,621	\$ 22,066	\$ 200,687

UNIVERSITY OF KENTUCKY
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION

1. UNIVERSITY OF KENTUCKY OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLAN

SCHEDULES OF CHANGES IN THE NET OPEB LIABILITY (in thousands) AND RELATED RATIOS

	2021	2020	2019	2018	2017
Total OPEB liability					
Service cost	\$ 2,593	\$ 2,668	\$ 3,953	\$ 3,710	\$ 4,356
Interest cost	23,185	21,888	29,225	28,053	28,667
Change of benefit terms	—	—	(58,343)	—	—
Differences between expected and actual experience	(21,244)	757	1,921	(1,071)	12,087
Changes of assumptions	(51,723)	870	(63,511)	(3,559)	(40,408)
Benefit payments	(8,872)	(8,736)	(10,824)	(12,620)	(11,889)
Net change in total OPEB liability	(56,061)	17,447	(97,579)	14,513	(7,187)
Total OPEB liability, beginning	310,902	293,455	391,034	376,521	383,708
Total OPEB liability, ending	254,841	310,902	293,455	391,034	376,521
Plan fiduciary net position					
Contributions - employer	13,245	14,292	18,804	20,013	23,987
Contributions - beneficiaries	3,951	3,719	4,379	4,945	5,500
Net investment income (loss)	58,787	(839)	9,367	8,989	12,508
Benefit payments	(12,823)	(12,454)	(15,203)	(17,565)	(17,389)
Administrative expense	(1,814)	(1,611)	(1,376)	(783)	(674)
Net change in Plan fiduciary net position	61,346	3,107	15,971	15,599	23,932
Plan fiduciary net position, beginning	178,621	175,514	159,543	143,944	120,012
Plan fiduciary net position, ending	239,967	178,621	175,514	159,543	143,944
Net OPEB liability, ending	<u>\$ 14,874</u>	<u>\$ 132,281</u>	<u>\$ 117,941</u>	<u>\$ 231,491</u>	<u>\$ 232,577</u>
Plan fiduciary net position as a percentage of OPEB liability	94.2%	57.5%	59.8%	40.8%	38.2%
Covered employee payroll	\$ 544,901	\$ 563,859	\$ 459,655	\$ 480,320	\$ 494,158
Net OPEB liability as a percentage of covered employee payroll	2.7%	23.5%	25.7%	48.2%	47.1%

Notes to schedule:

The Schedules of Changes in Net OPEB Liability and Related Ratios is presented as of the measurement date for the fiscal year. Ten years of data for the OPEB Plan is required and will be added as information becomes available.

Change of assumptions and benefit terms:

2021: The mortality table was updated to the PUB-2010 Amounts Weighted Mortality Table, with mortality improvement projected generationally using scale Mortality Projection-2020; the health care trend rates have been updated to better anticipate future experience under the Plan.

2020: The mortality table was updated to the PUB-2010 Amounts Weighted Mortality Table, with mortality improvement projected generationally using scale Mortality Projection-2019; the health care trend rates have been updated to better anticipate future experience under the Plan.

2019: The mortality table was updated to the PUB-2010 Amounts Weighted Mortality Table, with mortality improvement projected generationally using scale Mortality Projection-2018; the health care trend rates have been updated to better anticipate future experience under the plan. Effective January 1, 2019, post retirement medical benefits for Medicare eligible retirees was updated from a self-insured retiree Medicare Carveout program with a deductible that is tied to the Medicare Part B deductible to a fully-insured Medicare Advantage Plan.

2018: The mortality table was updated to the aggregate base rates for healthy lives from the Retirement Plans-2014 mortality study with a fully generational projection from 2006 using scale Mortality Projection-2017.

2017: The mortality table was updated to the aggregate base rates for healthy lives from the Retirement Plans-2014 mortality study with a fully generational projection from 2006 using scale MP-2016; the health care trend rates have been updated to better anticipate future experience under the plan.

SCHEDULE OF OPEB INVESTMENT RETURNS

Year	Annual money-weighted rate of return, net of investment expenses
2021	27.8%
2020	(3.1)%
2019	5.5%
2018	6.5%
2017	10.3%

SCHEDULE OF OPEB CONTRIBUTIONS (in thousands)

	2021	2020	2019	2018	2017
Actuarially determined contribution	\$ 12,958	\$ 11,917	\$ 20,600	\$ 20,000	\$ 24,454
Contribution in relation to actuarially determined contribution	(13,245)	(14,292)	(18,804)	(20,013)	(23,987)
Contribution deficiency (excess)	\$ (287)	\$ (2,375)	\$ 1,796	\$ (13)	\$ 467
Covered employee payroll	\$ 544,901	\$ 563,859	\$ 459,655	\$ 480,320	\$ 494,158
Contribution as a percentage of covered employee payroll	2.4%	2.5%	4.1%	4.2%	4.9%

Notes to Schedule:

Funding policy contribution rates are calculated as of June 30, one year prior to the end of the fiscal year in which contributions are reported. Ten years of data for the OPEB Plan is required and will be added as information becomes available.

Methods and assumptions used to determine contribution rates:

Funding policy	<p>For 2021 and 2020, funding contribution determined as the sum of estimated administrative expenses plus 30-year amortization of the initial unfunded present value of projected benefits and subsequent asset gains/losses and liability gains/losses.</p> <p>For 2019 and 2018, funding contribution was determined as the minimum of the 15-year amortization of unfunded present value of benefits and contribution limit of \$20,600,000 and \$20,000,000, respectively, not less than \$250,000.</p> <p>For 2017, funding contribution was determined as the GASB 45 Annual Required Contribution, which equals the sum of projected unit credit normal cost plus 30-year amortization of initial unfunded accrued liability and subsequent asset gains/losses and liability gains/losses.</p>
Amortization	<p>For 2021 and 2020, the amortization period was a 30 year closed period.</p> <p>For 2019 and 2018, the amortization period was a 15 year open period.</p> <p>For 2017, the amortization period was a 30 year closed period.</p>
Present value of benefits	<p>Actuarial present value at the beginning of the fiscal year of the net post retirement benefits expected to be paid to all current plan participants calculated using a 7.5% interest rate.</p>
Health care trend rates	<p>For 2021, post-65 medical 1.1% increasing to 312.2% for 2021 followed by 75.7% in 2022 and decreasing to an ultimate rate of 4.5% in 2031. Post-65 RX trend rate is 6.2% decreasing to an ultimate rate of 4.5% in 2031. Pre-65 rate is 6.3% decreasing to an ultimate rate of 4.5% in 2031.</p> <p>For 2020, post-65 medical 1.1% increasing to 312.2% in 2021 and decreasing to an ultimate rate of 4.5% in 2031. Post-65 RX trend rate is 6.4% decreasing to an ultimate rate of 4.5% in 2029. Pre-65 rate is 6.4% decreasing to an ultimate rate of 2.20% in 2029.</p> <p>For 2019, post-65 medical 5%, Post-65 RX 10.0%, decreasing 0.5% per year to an ultimate rate of 5%. Pre-65 7.94%, decreasing .31% - .39% per year to an ultimate rate of 2.20% in 2022.</p> <p>For 2018, post-65 medical 5%, Post-65 RX 10.5%, decreasing 0.5% per year to an ultimate rate of 5%. Pre-65 8.25%, decreasing .31% - .39 per year to an ultimate rate of 2.20% in 2022.</p> <p>For 2017, post-65 medical 5% and post-65 prescription 10%, decreasing .5% per year to an ultimate rate of 5%. Pre-65 6.75%, decreasing .12% - 3.49% per year to an ultimate rate of 2.20% in 2024.</p>
Salary scale	<p>Three percent per year.</p>
Retirement rates	<p>Faculty from 0.00 to 1.00 from age 50 to 85; staff from 0.03 to 1.00 from age 50 to 85.</p>
Discount rate and investment rate of return	<p>7.5% based on the University's funding policy and the expected long-term return on the separate trust assets that will be used to finance the payment of plan benefits. The University has stated that its funding policy is to contribute an amount to a segregated and protected trust fund. The amount will be such that the assets available will always be sufficient to cover the expected benefit payments.</p>

Mortality	<p>For 2021, PUB-2010 Amounts Weighted Mortality Table, with mortality improvement projected generationally using scale Mortality Projection-2019.</p> <p>For 2020, PUB-2010 Amounts Weighted Mortality Table, with mortality improvement projected generationally using scale Mortality Projection-2018.</p> <p>For 2019, aggregate base rates for healthy lives from the Retirement Plans-2014 mortality study with a fully generational projection from 2006 using scale Mortality Projection-2017.</p> <p>For 2018, aggregate base rates for healthy lives from the Retirement Plans-2014 mortality study with a fully generational projection from 2006 using scale Mortality Projection-2016.</p> <p>For 2017, aggregate base rates for healthy lives from the Retirement Plans-2014 mortality study with fully generational projection from 2006 using scale Mortality Projection-2015.</p>
Disability	Gender and age-related disability incidence rates based on 1987 GLTD (six month elimination period).
Plan participation	80% elect coverage.
Dependent coverage	80% of active employees are assumed to be married at their retirement. 60% of those married retirees are assumed to have spousal coverage in effect upon death. Female spouses of male retirees are assumed to be three years younger than their husbands. Male spouses of female retirees are assumed to be three years older than their wives.

Ten years of data for the OPEB Plan is required and will be added as information becomes available.

2. UNIVERSITY OF KENTUCKY LONG-TERM DISABILITY (LTD) PLAN

SCHEDULES OF CHANGES IN THE NET LTD LIABILITY (in thousands) AND RELATED RATIOS

	2021	2020	2019	2018	2017
Total LTD liability					
Service cost	\$ 2,309	\$ 2,242	\$ 2,241	\$ 2,104	\$ 1,606
Interest cost	1,790	1,775	1,750	1,555	1,569
Differences between expected and actual experience	(2,058)	(2,140)	(1,782)	1,017	138
Changes of assumptions	1	(3)	(123)	(8)	1,042
Benefit payments	(1,666)	(1,748)	(1,684)	(1,931)	(1,763)
Net change in total LTD liability	376	126	402	2,737	2,592
Total LTD liability, beginning	26,045	25,919	25,517	22,780	20,188
Total LTD liability, ending	26,421	26,045	25,919	25,517	22,780
Plan fiduciary net position					
Contributions - employer	1,894	1,789	2,063	2,002	2,020
Net investment income	5,994	145	1,548	1,264	1,956
Benefit payments	(1,666)	(1,748)	(1,684)	(1,931)	(1,763)
Administrative expense	(71)	(64)	(64)	(38)	(61)
Net change in plan fiduciary net position	6,151	122	1,863	1,297	2,152
Plan fiduciary net position, beginning	22,066	21,944	20,081	18,784	16,632
Plan fiduciary net position, ending	28,217	22,066	21,944	20,081	18,784
Net LTD liability, ending	<u>\$ (1,796)</u>	<u>\$ 3,979</u>	<u>\$ 3,975</u>	<u>\$ 5,436</u>	<u>\$ 3,996</u>
Plan fiduciary net position as a percentage of LTD liability	106.8%	84.7%	84.7%	78.7%	82.5%
Covered-employee payroll	\$1,153,833	\$1,097,046	\$1,095,104	\$ 977,928	\$ 940,951
Net LTD liability as a percentage of covered-employee payroll	(0.2)%	0.4%	0.4%	0.6%	0.4%

Notes to schedule:

The Schedules of Changes in the Net LTD Liability and Related Ratios is presented as of the measurement date for the fiscal year. Ten years of data for the LTD Plan is required and will be added as information becomes available.

Change of assumptions and benefit terms:

2021: The mortality table was updated to PUB-2010 Amounts Weighted Mortality Table, with mortality improvement projected generationally using scale Mortality Projection-2020.

2020: The mortality table was updated to PUB-2010 Amounts Weighted Mortality Table, with mortality improvement projected generationally using scale Mortality Projection-2019.

2019: The mortality table was updated to the PUB-2010 Amounts Weighted Mortality Table, with mortality improvement projected generationally using scale Mortality Projection-2018.

2018: The mortality table was updated to the aggregate base rates for healthy lives from a Retirement Plans-2014 mortality study with a fully generational projection from 2006 using scale Mortality Projection-2017.

2017: The mortality table was updated to the aggregate base rates for healthy lives from the Retirement Plans-2014 mortality study with a fully generational projection from 2006 using scale Mortality Projection-2016; the discount rate was updated from 7.5% to 6.5%.

SCHEDULE OF LTD INVESTMENT RETURNS

Year	Annual money-weighted rate of return, net of investment expenses
2021	27.7%
2020	0.5%
2019	7.5%
2018	7.1%
2017	12.0%

SCHEDULE OF LTD CONTRIBUTIONS (in thousands)

	2021	2020	2019	2018	2017
Actuarially determined contribution	\$ 1,935	\$ 1,786	\$ 2,060	\$ 2,000	\$ 1,984
Contribution in relation to actuarially determined contribution	(1,894)	(1,789)	(2,063)	(2,002)	(2,020)
Contribution deficiency (excess)	<u>\$ 41</u>	<u>\$ (3)</u>	<u>\$ (3)</u>	<u>\$ (2)</u>	<u>\$ (36)</u>
Covered employee payroll	\$1,153,833	\$1,097,046	\$1,095,104	\$ 977,928	\$ 940,951
Contribution as a percentage of covered employee payroll	0.2%	0.2%	0.2%	0.2%	0.2%

Notes to schedule:

Funding policy contribution rates are calculated as of June 30, one year prior to the end of the fiscal year in which contributions are reported. Ten years of data for the LTD Plan is required and will be added as information becomes available.

Methods and assumptions used to determine contribution rates:

Funding policy	<p>For 2021 and 2020, funding contribution is determined as the sum of estimated administrative expenses plus 15-year amortization of the initial unfunded present value of projected benefits and subsequent asset gain/losses and liability gains/losses.</p> <p>For 2019 and 2018, funding contribution was determined as the minimum of the ten year amortization of unfunded present value of benefits and contribution limit of \$2,060,000 and \$2,000,000, respectively, not less than \$250,000.</p> <p>For 2017, funding contribution was determined as the GASB 45 Annual Required Contribution, which equals the sum of projected unit credit normal cost plus 30-year amortization of initial unfunded accrued liability and subsequent asset gains/losses and liability gains/losses.</p>
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Amortization	For 2021 and 2020, the amortization period was a 15 year closed period. For 2019 and 2018, the amortization period was a 10 year open period. For 2017, the amortization period was a 30 year closed period.
Present value of benefits	Actuarial present value at the beginning of the fiscal year of the net post retirement benefits expected to be paid to all current plan participants calculated using an interest rate equal to the long-term expected return on plan assets (6.5% as of July 1, 2019).
Plan Assets	Market value of assets as of the beginning of the fiscal year.
Discount rate and investment rate of return	For 2021, 2020, 2019, and 2018, 6.5% based on the University's funding policy and the expected long-term return on the separate trust assets that will be used to finance the payment of plan benefits. The University has stated that its funding policy is to contribute an amount to a segregated and protected trust. The amount will be such that the assets available will always be sufficient to cover the expected benefit payments. For 2017, 7.5% based on the University's annual required contribution funding policy and the expected long-term return on the separate trust assets that were used to finance the payment of plan benefits.
Elimination period	Six months.
Termination (mortality and recovery from disability)	2012 Society of Actuaries group LTD table.
Mortality (only for life insurance)	Canadian Institute of Actuaries 1988-94 LTD Table.
Retirement rates	Faculty from 0.00 to 1.00 from age 50 to 85; staff from 0.03 to 1.00 from age 50 to 85.
Mortality rates for actives	For 2021, PUB-2010 Amounts Weighted Mortality Table, with mortality improvement projected generationally using Mortality Projection-2019. For 2020, PUB-2010 Amounts Weighted Mortality Table, with mortality improvement projected generationally using Mortality Projection-2018. For 2019, aggregate base rates for healthy lives from the Retirement Plans-2014 mortality study with a fully generational projection from 2006 using scale Mortality Projection-2017. For 2018, aggregate base rates for healthy lives from the Retirement Plans-2014 mortality study with a fully generational projection from 2006 using scale Mortality Projection-2016. For 2017, aggregate base rates for healthy lives from the Retirement Plans-2014 mortality study with fully generational projection from 2006 using scale Mortality Projection-2015.
Incidence of disability	Gender and age related disability incidence rates based on 1987 Commissioner's group LTD table.
Duration of payment	Payments are assumed to be made until the later of: i) age 65 and ii) five years after date of disability.
LTD income benefit	
Disability benefit	Actual net benefit currently being paid (if currently disabled).
Social Security offset	Assume 90% of the members who have been disabled for less than 24 months and currently not entitled to a Social Security offset will immediately receive an offset.

Future salary increase for active members Three percent per year.

Ten years of data for the LTD Plan is required and will be added as information becomes available.

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